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국제학석사학위논문

**Revival of Bureaucratic Maneuvering  
under the Noda Cabinet**

**: Who Pulled the Strings on Consumption Tax Hike in 2012?**

노다 내각 아래 되살아난 관료의 책략  
: 2012년 소비세 인상의 배후는 누구였는가?

2016년 8월

서울대학교 국제대학원

국제학과 일본 지역학

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## **Abstract**

### **Revival of Bureaucratic Maneuvering under the Noda Cabinet : Who Pulled the Strings on Consumption Tax Hike in 2012?**

노다 내각 아래 되살아난 관료의 책략  
: 2012년 소비세 인상의 배후는 누구였는가?

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In 2012, for the first time in fifteen years in Japan, Prime Minister Yoshihiko Noda won the parliamentary approval to raise the country's sales tax by 10 percent by 2015. Despite the widespread tensions, Noda had stated that he would stake his political life on the success of the policy. Noda's decision to raise the consumption tax breached the party's own manifesto and eventually caused the Ozawa-led forty-nine member faction to leave the DPJ in protest. In the end, the DPJ underwent a catastrophic defeat in the December 2012 election, ending its three years and three months in power. With all the disastrous results faced by Noda, why did he raise the consumption tax at the cost of his own political life? What was the underlying force that drove Noda to raise the tax and act out against his own political interests?

This study examines the influence of bureaucrats on Noda and their own capability, rationality, and strategies of approach and persuasion that pushed the consumption tax hike behind the scenes. The second chapter, as a background, includes literature reviews on the revolution of Japanese bureaucracy in the sequences of "the administrative centered government" to "an executive

centered government” under LDP and finally to “politician-led government” under DPJ. In order to analyze the power of the Ministry of Finance (MOF), chapter three observes the internal factors such as the decision making processes in Noda’s Administration and Cabinet lineup. This chapter further analyzes the external situation such as the Triple Disaster that struck Japan in 2011 and how MOF skillfully used this to persuade the public by controlling the media.

This thesis further examines how bureaucrats have actually obtained more influence in policy-making processes under the DPJ and Noda despite DPJ’s initial manifesto. Thus, chapter four analyzes various elements of the DPJ that bolstered the MOF’s strategic approach and the revival of bureaucratic superiority within the policy-making process. In turn, this thesis argues that the consumption tax increase in 2012, the long-pursued goal of MOF, was possible precisely because it was under DPJ. In other words, starting from the changes in the incumbent party, the lack of expertise and knowledge, the confusion and instability of DPJ’s setting, its crisis in crisis management enabled bureaucrats to finally achieve their long sought after goal of a consumption tax increase.

**Keywords:** Democratic Party of Japan, Prime Minister Noda, Consumption Tax, Bureaucracy, Ministry of Finance, Administrative Reform, Japanese politic

**Student ID.:** 2013-23738

## Table of Contents

<b>Abstract (English) -----</b>	<b>i</b>
<b>Table of Contents -----</b>	<b>iii</b>
<b>List of Figures and Tables -----</b>	<b>v</b>
 <b>I . Introduction</b>	
1. Purpose of the Thesis -----	1
2. Methodology -----	4
3. Theoretical Framework -----	5
 <b>II. Literature Review: ‘The administrative centered government’ to ‘an executive centered government’ to ‘politician-led government’ -----</b>	
<b>8</b>	
1. The ‘administrative centered government’: bureaucratic dominance, a driving force of Japanese State -----	9
2. Fall of Bureaucratic Power: moving towards ‘an executive centered government’ under LDP -----	17
3. DPJ’s Election Manifesto: towards ‘politician-led government’ under DPJ, declaration of war on bureaucracy -----	25
 <b>III. Application of Theoretical Framework on Noda Government -----</b>	
<b>29</b>	
1. Bureaucrats under Noda Administration and Policy-Making Process	32
2. Cabinet Lineup and Eijiro Katsu -----	41
3. Media and Triple Disasters -----	51
4. Ozawa Ichiro versus Yoshihiko Noda -----	64

<b>IV. Revival of Bureaucracy -----</b>	<b>71</b>
1. A New Inexperienced Incumbent Party -----	72
2. Tohoku Earthquake and Tsunami –crisis in the crisis management -	82
3. The Process of MOF’s Strategic Approach-----	85
4. Morihiro Hosokawa Case -----	91
5. Bureaucrats and LDP under DPJ -----	93
6. Conclusion of Chapter -----	97
 <b>V. Conclusion</b>	
1. Limitation of Study-----	101
2. Future Study Suggestion -----	101
3. Results/Discussion -----	102
 <b>Bibliography -----</b>	<b>108</b>
 <b>Abstract (Korean) -----</b>	<b>116</b>

## **List of Figures and Tables**

Figure 1. The Decision-making Process under Noda Administration (Source: Zakaowski 2015)

Figure 2. Cabinet Lineup of Noda Administration (Source: Asahi Shimbun 2011/09/03)

Figure 3. Public Opinion Survey On consumption Tax Hike (Source: The Nikkei 2012/01/20)

Figure 4. Party approval rate compared DPJ and LDP (Source: Asahi Shimbun 2012/12/26)

Figure 5. DPJ Members' Self-assessments on Issue of Party's Management over Bureaucrats Source: Rebuild Japan Initiative Foundation, RJIF)

Figure 6. Trust in Central Government Before and After the Disaster (Source: Nakamura, 2011)

Figure 7. DPJ and LDP's Support Rate in NHK Polls (Source: Nippon Hoso Kyokai)

Table 1 . Monthly Survey Results on the Consumption tax Increase

(Source: Asahi Shimbun Regular Public Opinion Poll, date organized by author)

Table 2. Monthly Survey Results on the Support of Prime Minister Noda

(Source: Asahi Shimbun Regular Public Opinion Poll, date organized by author)

## **I . Introduction**

This thesis explores the underlying force of Prime Minister Yoshihiko Noda's 2012 decision to double the sales tax by 2015. For the first time in fifteen years in Japan, Prime Minister Yoshihiko Noda won parliamentary approval to raise the country's sales tax by 10 percent by 2015. Noda argued for the importance of raising the consumption tax for snowballing expenditure debts and soaring welfare costs, stating, "[It] is important to take the opportunity to start to improve the fiscal situation....I want the people to understand" (Reynolds and Hirokawa 2012a). His victory, however, caused the Ozawa-led-forty-nine member faction to leave the DPJ in protest and he eventually lost the next election. Despite the widespread tensions, Noda had stated that he would stake his political life on the success of the policy. With all the disastrous results that Noda faced, why did Noda raise the consumption tax and risk his own political life? What was the underlying force that drove Noda to raise the tax and act out against the political interests? This thesis examines the influence of MOF's bureaucrats on Noda and their own capability, rationality, and strategies of approach and persuasion that led to the consumption tax hike case in 2011. This study further examines how bureaucrats have actually achieved more influence in policy-making processes



under the DPJ and Noda, despite the DPJ's initial manifesto, as their long dream had come true under the short period of DPJ's rule - the increase in the consumption tax rate.

The second chapter, as a background, includes literature reviews on the revolution of Japanese bureaucracy in the sequences of "the administrative centered government" to "an executive centered government" under LDP and finally to "politician-led government" under DPJ. The first part of the chapter explores classical studies in order to examine bureaucratic dominance and examines how Japanese society was managed under this administrative guidance. The latter part of the chapter explores how the power of bureaucracy has shifted and was regulated under LDP, the power relations between politicians and bureaucrats and finally introduces the DPJ's election manifesto regarding the bureaucracy.

Chapter three applies Junko Kato's theoretical framework on the case of Noda's consumption tax increase to examine Noda's decision. This chapter focuses on the influence of bureaucrats on Noda and their own capability, rationality and strategies of persuasion. This chapter argues beyond Kato's theoretical framework that bureaucrats not only strategically target politicians in

order to promote bureaucratic influence on policy-making but also how MOF bureaucrats select and educate young politicians and bureaucrats and plant them into the Cabinet in order to promote bureaucratic influence on policy-making and finally to achieve their goals. In order to prove the power of MOF, chapter three analyzes the internal factors such as decision making process in Noda's Administration and the Cabinet lineup with regards to the relationship with MOF. This chapter further analyzes the external situation such as the Triple Disaster that struck Japan in 2011 and how MOF skillfully used this to persuade the public by controlling media. This chapter argues that the consumption tax hike in 2012 was possible in combination of MOF controlling both internal factor and using external situation.

Chapter four challenges a pre-existing argument that one party's dominance, under LDP, provided a stronger foundation for Japanese bureaucratic power and analyzes how bureaucrats have actually achieved more influence on policy-making processes under DPJ, regardless of DPJ's initial manifesto. In this chapter, various elements of DPJ that bolster the MOF's strategic approach and the revival of bureaucratic superiority are examined. In turn, this study further assures that, as it was in the case of DPJ, bureaucratic expertise is in more demand when in a "setting" where there is confusion and

instability in the system. In short, this study argues that bureaucrats' strategic persuasion played a controlling role in influencing Noda's decision and the changes in the incumbent party were a crucial factor that enabled it.

Numerous studies have been done to examine the rise and fall of DPJ and in attempt to understand Noda's rationale from a concrete economic perspective. Despite various assumptions and hypotheses, there has been limited information and evaluation on the underlying forces that impacted Prime Minister Noda's decision-making process and to act against the rationality of usual politicians. This thesis attempts to provide another possible explanation in understanding the process of sales tax increase in 2012 and how bureaucratic involvement led to this tax increase.

## **1. Methodology**

As the aim of this thesis is to explore the actual impact of bureaucrats, particularly the Ministry of Finance on Noda's decision with the sales tax increase, a qualitative research methodology is employed. To obtain in-depth knowledge and to understand the actual setting of the decision-making process, the study has analyzed massive amounts of news articles in a sequential time

period from 2009 to 2012, investigated through various sources. This study provides descriptive and analytical explanations of the event by presenting specific speeches and interviews from associates including former politicians and former bureaucrats from various sources.

## **2. Theoretical Framework**

Despite the two mainstream traditional debates on the “dominant bureaucracy school” versus “dominant politician school”, this study focuses on the interaction of politicians and bureaucracy on the policy-making process. Even this thesis does not argue for the traditional kind of model such as the strong “bureaucratic dominant” school, the framework lies on the “bureaucratic superiority” on the policy-making process based on the analysis of the consumption tax hike case in 2012. It aims to show how Noda and DPJ boosted the revival of “bureaucratic superiority” based on the tax issue.

In order to investigate bureaucratic influence on politicians and their strategic persuasion within Noda’s case, this study references Junko Kato’s theoretical framework from “Problem of Bureaucratic Rationality,” which addresses some fundamental issues on the bureaucratic influence on past

policy-making and politicians vis-à-vis the tax reform. Kato rejects conventional explanations that assume an overwhelming advantage for bureaucrats as policy specialists which involve “the monopolization of policy information and expertise enables them to manipulate the political process and to override the popular will by tricking party politicians who are supposed to represent it” (1994). Kato argues that they strategically target politicians in order to control the information carefully as the “sharing policy information and knowledge with incumbent politicians is compatible with the promotion of bureaucratic influence in policy-making” (1994, 38).

Furthermore, Kato characterizes bureaucratic rationality as “bounded, in nature, since bureaucrats pursue the goal or a hierarchy of goals defined by their utility function and use means that are most appropriate to achieve them” (Kato 1994). To explain how bureaucrats strategically impact the policy-making process and pursue its objectives, she uses bounded rationality of organizations—in her case, technocratic bureaucracy— in terms of the relationship with other organizations. She argues that bureaucratic organizations, if they are organized to promote members’ pursuance of organizational goals, are likely, in the long run, to gain influence over political organizations. I further discuss Kato’s key arguments in her framework in this chapter as I

attempt apply onto Noda. This study comparatively analyzes the past VAT led by LDP and doubled sales tax led by DPJ (primarily Noda) in 2012, referencing Kato's theoretical framework which details the respective power of bureaucracy and political parties in Japanese policy-making.

Furthermore, beyond Kato's theoretical framework, this study further sets its theoretical framework that bureaucrats not only strategically target reliable sponsors ---existing politicians--- for pursuing their policy goals, but they also strategically educate young politicians and bureaucrats in advance and plant them into the Cabinet at the appropriate time in order to promote bureaucratic influence on policy-making and to finally achieve their goals. This study calls the installation of its allies "plantation" which itself serves as foundation and evidence of the "bureaucratic superiority" on the Japanese policy-making process.

## **Chapter 2: Literature Review: ‘The administrative centered government’ to ‘an executive centered government’ to ‘politician-led government’**

For the past several decades, the long-running debate on Japanese politics centered on the question of “who governs Japan?” (Wright 1999, Johnson 1996) and “who exercises primary influence in policymaking?” (Mulgan 2000). The two dominant school on the Japanese policy-making process has been divided into two schools, the “dominant bureaucracy school” (Kanryo-shudo Ron) and the “dominant politicians school” (Seijika-yui ron). Despite the two traditional mainstream arguments, recent political science focuses on the relationship and interaction between of bureaucrats and politician in the policy-making process, “in practice the ministries and the LDP negotiate closely with each other, leaving political scientists to debate endlessly over which one really dominates the policy process” (Vogel 2006, 41).

In order to gain background on the power of bureaucracy and how it has shifted over time, this chapter explores the transformation of Japanese bureaucracy in the sequence of “the administrative centered government” to “an executive centered government” —under LDP— to “politician-led government”—under DPJ— based on literature review. The first section

provides a background on how Japanese society was sustained under bureaucratic dominance by referencing the “bureaucracy dominant” model. The next section of the chapter presents how and why the capabilities of bureaucracy shifted under LDP and how the relationship between bureaucrats and politicians changed over time. The last section of chapter ends with bureaucracy under DPJ rule while mainly focusing on DPJ’s primary election manifesto under Prime Minister Hatoyama, which involves in “breaking the domination of the bureaucracy”(Asahi Shimbun 10<sup>th</sup> August 2009).

This chapter serves as a crucial background for chapter three, which explores the revival of bureaucratic influence on the decision-making process in the case of Noda, then into chapter four which argues that DPJ was actually incapable of challenging the bureaucracy; in fact, bureaucrats re-gained bureaucratic superiority as their long dream had come true under the short period of DPJ’s rule - the increase in the consumption tax rate.

# **1. The administrative centered government: bureaucratic dominance, a driving force of Japanese State**



This section explores Japan under bureaucratic dominance and how Japanese society was managed under this administrative guidance. According to Makihara Izuru, a professor at Tōhoku University, during the era of LDP rule, there was a tendency to pin the blame on the bureaucracy whenever results got unpleasant (2011). The ultimate responsibility sits with the politicians in power, however, the attempts to shift blame onto the bureaucracy revealed that the LDP was essentially under a bureaucracy driven government (Izuru 2011). Moreover, Shigeaki Koga, an industry ministry official, stated that, “if we compare Japan to a bus company, politicians are managers and bureaucrats are drivers” and “under the LDP government, everything was left to the drivers” (Asahi Shimbun 15th August 2011). The conventional perspective is that as bureaucrats are the policy specialists, the overwhelming advantages are given allowing them to monopolize the policy information and manipulate the political process. Based on the literature review, this section explores one of the first and the most mainstream argument, the “dominant bureaucracy school”..

Sheldon Garon, in his “Molding Japanese Mind: The state in everyday life”, challenges the existing dominant interpretation of the pre-war Japanese state of “emperor-system thesis” argues that Japanese society can be depicted as an “enigma” since their civil liberties coexist within such a highly managed

society under the bureaucrats' influence (1998, 235). Under the examination of the state management on trans-war development through welfare, sexuality and gender relations and religion movement, Garon maintains his argument that Japanese society is far more extensively controlled by the state than other Western democratic societies since the state was always interested in "social management" in order to preserve order and facilitate its social development. For example, as early as the 1880s, Japanese intellectual, local elites and officials gathered to awaken a sense of nation to Japanese civilians to modernize and compete with other Western countries (1998, 9). As the twentieth century began, a new generation of elite bureaucrats noticed the importance of the "unity of the people's spirit" and persuaded the state that they needed to focus on mobilizing and managing human resources.

Traditionally, the administrative culture evolved as dominant culture covering the entire society (Ide 1982). Despite the origin of strong bureaucracy in Japan is debatable among scholars, Furukawa explains that it goes far back to the Tokugawa period (1603-1868) based on the idea of samurai and the Chinese ideology of state governance (1999). Masaru Sakamoto argues that the initial advancement of public administration in Japan is generally traced back to the early Meiji era (2001, 251). In addition, the bureaucrats were considered to be

the servants of the emperor in the prewar period and personnel administration was based on a spiritual and emotional administration upon a sense of loyalty and honor (Adachi 1962). Moreover, according to Sakamoto, the amendment of the ordinance in 1932 led to the decline of party control over the appointment of the bureaucrats and thereby the power and security of the bureaucrats advanced.

A leading advocate of the “bureaucratic dominance school” Tsuji Kiyooki, in “A study of Japanese Bureaucracy,” argues that, “the causes of the bureaucratic supremacy lie in the Japanese historical development directly shifted from monarchy to the contemporary administrative state, skipping the stage of civil society” (1952). Tsuji introduces the three factors that boosted bureaucratic power. First, the bureaucrats’ power was enhanced after the defeat in World War II, which led to the dismantling of the occupation authorities, and *gunbatsu* to *zaibatsu* who had exercised power in the past. Second, the image or fantasy over bureaucratic neutrality and lastly, the weak power of politician forces and politicians all contribute to the increase in the bureaucratic power. Tsuji further argues that the bureaucrats’ practical monopoly on bill-drafting is unarguable.

The first in-depth systematic study of the administrative elite is written by Charmers Johnson, "MITI and the Japanese Miracle" in 1982. This work is profound since the "emperor's servant" type of bureaucratic image in the past has transformed into a "sophisticated technocrat" (Yamaguchi 1987). Johnson argued that "the most talented graduates of best university....the elite bureaucracy of Japan makes most major decisions" and assures that this economic bureaucracy is a natural corollary of plan rationality (1982, 20). Johnson describes bureaucrats as the source of major policy innovation in the system and as the control of the national budget their primary purpose was to industrialize and strengthen the nation's international competitive in both pre- and post-war Japan. "The elite bureaucracy of Japan makes most decisions, drafts virtually all legislation, controls the national budget, and is the source of all major policy innovation in the system" (Johnson 1982, 320).

He emphasizes the role of bureaucrats' capability as their power of financial control and their strategy of export-led growth with its own industrial policy. Moreover, he places great importance on Minister of International Trade and Industry (MITI), the pilot agency that played a central role leading and guiding postwar economic development in Japan. Along with acknowledging the significance of bureaucrats in their role of policy making, he argues that the

bureaucrats were the central agencies who facilitated and spearheaded the country's economic growth (1982). Moreover, in the beginning in 1951, "Deliberation council" controlled by the MOF supervised and approved annual revisions became a permanent organ of the prime minister's office renamed as the Tax System Deliberation Council (Zeisei Chosa Kai). Johnson describes that it worked as an annual revisions in the tax system in the light of changing needs and economic situation and, "after the creation of LDP the council became the MOF's main tool for attempting to prevent the party for politicizing the tax system" (1982, 234). Moreover, establishing a broad based consumption tax was closely related to the MOF's organizational interest of increasing, or at least maintaining, control over the budget. The entire ministry made a deep commitment to the new tax, the MOF consistently put the highest priority on the introduction of a broad-based consumption tax (Kato 1994, 12).

Moreover, according Byung Chul Koh, there are three other factors that indicate the model of bureaucratic dominance: first, the existence of former bureaucrats in the LDP, second the quasi-legislative powers of bureaucracy, and the last, de facto bureaucratic control over advisory commissions. About 25 percent of LDP Diet members were former bureaucrats and this, "entry of so many former bureaucrats into the diet implies that its perceived power is great"

and “it can be treated as a sign not of bureaucratic ascendancy but of the Diet’s dominance” (Koh 1989).

Whereas Johnson, Koh and Tusji find the power of bureaucracy based on the power it has over the process of policy-making, other scholars claims that bureaucratic power is maintained not because they are so strong, but because of Japan’s political leadership deficit (Mulgan 2000), fragmented government with weak prime ministers (Campbell 1989) and a lack of political authority (Furukawa 1999). A.G. Mulgan argues that “In Japan, the bureaucrats regard themselves as an independent source of political authority” (2000). Traditionally Japanese prime ministers “ended up playing a passive role in Cabinet meetings” since the objective of the meeting itself was to confirm what has already been approved by the administrative vice-ministers at their meeting the day before” (2000, 188). Yawata Kazuo further claims that this kind of meeting takes away the “political role that the cabinet is supposed to play” (1998, 3). Furthermore, John Creighton Campbell’s concept of “bureaucratic primacy” argues that, “bureaucrats are still the main force for change in most policy communities in Japan” (1989). Moreover, one of factor that results in Japan’s chronic leadership failure is on the entrenched bureaucratic prerogative. Mulgan further argues that “What is so insidious about the exercise of this kind

of bureaucratic power is that it is power without responsibility” as the responsibility in Japanese system is formally based on the Cabinet (Article 66 of the constitution).

Furthermore, the bureaucracy’s supremacy is also explained based on the LDP’s lack of ability to control the party itself. The party’s mechanisms for integrating and coordinating policy did not function well (Sato and Matsuzaki 1986). Moreover, Curtis argues that, “the LDP has been more a ‘catch-all’ than a ‘programmatic’ party, without a well-defined policy line” (1988). Back in 1997 when Kan was leader of the main opposition Democratic Party; have stated that, “nothing comes before the Cabinet for a decision unless it is passed by the vice-ministers” (Mulgan 2000). Furthermore, ministers have hard time imposing their policy will on bureaucrats who run their own agendas and evade or even rejects their minister’s instruction.

Curtis in his “The Japanese way of Politics” argues that bureaucrats are far more than just “agents” of political leaders and they have their own political power. With the controlling important information and policy expertise, “bureaucracy has served in effect as the LDP’s think tank” (1988, 60). Notwithstanding, some of LDP Diet members have extensive knowledge about

particular policy areas, individual politicians and LDP did not have its own staff of policy experts and politicians can be considered as “generalists who need the support of specialist in order to formulate policy” (Curtis 1988). Moreover, bureaucrats, “employed quiet persuasion, using their expertise and the close personal relationship they had developed with long-serving political leader to convince the LDP to adopt particular policies” (Curtis 1988, 63). Kato also argues that the bureaucratic organizations, if they are organized to promote members’ pursuance of organizational goals with their specialized expertise are in the long run, gain influence over political organizations.

## **2. Fall of Bureaucratic Power: moving towards ‘an executive centered government’ under LDP**

In the continuation of the last section which examined the capabilities of the bureaucracy in Japan, this section further explores how and why it has shifted over time in the respect to the power of politicians. The purpose of this section is not to focus on the other stream of argument, the “dominant-politician” or “dominant-party” school which argues that politicians have more power in the policy-making process than bureaucrats as they developed expert knowledge about policies of their own. Rather, the aim of this section is to



analyze how bureaucratic power has weakened by observing the background behind for “administrative reforms” in post-war era and the emergence of idea on “an executive centered government”.

Johnson states that there was no doubt that the official state bureaucracy governed Japan until about 1975. Notwithstanding, along with the liberalization of the Japanese economy in the 1960s, Johnson himself admitted and wrote about the decline of MITI’s power and impact. “During the 1970s a subtle combination of events started apparent decline in the power of the bureaucracy and a concurrent rise in the power of the LDP” (Johnson 1986). With the abolishment on the control of licensing, allocation and foreign currency the “golden era” was over. Johnson admits that from 1970s, the LDP had started to play a more prominent and influential role in policy making. TJ Pemple in the “Unbundling Japan Inc” also concluded that “a relative decrease in the hegemonic powers of bureaucratic agencies, and a rise in the influence of the LDP and its parliamentary members” (1987).

Furthermore, in the 1980s, based on the pluralism approach, the emphasis had shifted toward LDP politicians whom were in competition with other individual politicians within the party itself for the votes in the election.

With the Zoku Giin (political tribes) in the LDP which has gained expert knowledge and important information on the specific policies and social need, has matured to intervene in the policy-making process that were dominated by the bureaucracy in the past (Inoguchi and Iwai 1987). Sato and Matsuzaki further argues that Japanese politics as pluralism which is managed by both the bureaucracy and LDP and explains how the LDP politicians gradually enhance their leadership over the bureaucrats in terms of the policy making process (1986). Muramatsu argues that bureaucratic dominance has divorced from the reality and significant increase in the power of politicians, “the LDP made the final decision on political competition between groups and the bureaucracy or between agency-group collations.... Ministerial bureaucrats propose and LDP decides” (Muramatsu and Krauss 1987, 60). Moreover, in the application of “rational choice” theory to Japanese politics, Ramseyer and Rosembluth argues that politicians have taken control over bureaucracy which means that the LDP have completely control over the initiative in the policy-making process. By using the principal-agent theory, they argue against the “dominant bureaucracy school” and they contends that it should rather be interpreted as the politicians dominate the bureaucracy (Ramseyer and Rosembluth 1993).

Moreover, amid the corruption scandals and an economic slump, the bureaucratic body that dominated the nation's postwar boom before the 1990s was stripped of its powers. Gerald Curtis argues that, "the traditional image of the Japanese bureaucracy as incorruptible, competent, and trustworthy has suffered irreparable damage as a result of policy failures and scandals that have hit one ministry after another since the early 1990s" (2002). He further assures that the bureaucratic power was also challenged by changing public attitudes about transparency and accountability. Steven Vogel, in his *Japan remodeled*, argues that the key features of Japan's distinctive economic model has been questioned, including a powerful guiding bureaucracy as he says MOF [may have contributed to the bubble and "to make matters worse, they misjudged the economic situation, assuming that an imminent recovery would boost the stock market and strengthen the financial institutions" (Vogel 2006). Therefore, much of the blame is on Japan's elite bureaucrats for the prolonged economic crisis, since these bureaucrats were too powerful and too inclined to meddle in the markets. Vogel further argues that to know the underlying reason why the Japanese government made critical errors in fiscal policy, monetary policy, and banking regulation, "we must begin with the bureaucrats who oversee these policies and whose ideologies inform the substance of these policies" (2006).

Jennifer Amyx observes the bureaucrats' limitation to explain why the Japanese government took so long to respond effectively to the banking crisis. Amyx concludes by the 1990s, the ministry-centered networks became dysfunctional despite its good performance during much of the postwar era. She contends that increased financial regulation and the networks' instability due to party realignment and the coalition government in the 1990s were the main point that the MOF's traditional approach of informal relations-based regulation became outmoded, and as result, the ministry focused on defending themselves from political attack than managing the banking crisis (Amyx 2004). Vogel proposes a simpler explanation that the "MOF officials were committed to a particular model of banking regulation that had served them well in the past so they were naturally slow to change their ways in the face of new changes" (2006, 49). Moreover, the insulation from political pressure led MOF to act slowly to the crisis until it grew out of the their hand, "when they discovered that bank was in trouble they would downplay or even hide the problem for fear that public disclosure might lead to a run on bank" (Vogel 2006, 49).

Moreover, the criticism grew towards the administrative centered government in the 1990s due to their careless efforts in enhancing the general welfare and the "haven" provided to the minor group of bureaucrats (Nakamura

2012). With the growing demand that elective members of politician take a leading role in country and to move away from the “administrative centered government”, several attempts were made to achieve “an executive centered government” carried out by former LDP leaders including Hashimoto Ryutaro (January 1996-July 1998) and Koizumi Junichiro (April 2001- September 2006). For example, efforts were made in order to reduce the bureaucratic power and to strengthen prime Minister’s Office, the Kantei. Hashimoto proposed in the 1997 to cut the number of division in the bureaus of ministries and agencies in order to streamline the administrative organizations and create a new Economic Policy council to strengthen the Prime Minister’s power to draw up the national budget (Mulgan 2000). However, though the Kantei has increased its power but has not established its control over policymaking (Curtis 2002). Moreover, Peter Drucker in his, “In Defense of Bureaucracy” states that despite recent scandals, the bureaucracy still is the only elite member in the Japanese society (1998).

After evaluating the MOF itself and its ideological commitment to fiscal balance, Vogel turns to the interaction between the ministry and party politicians to explain the fiscal policy’s failure to respond to the bubble burst with the appropriate fiscal stimulus. Throughout the postwar era, MOF officials

have hold a strong preference for balanced budgets and could achieve this goal until 1970s when they faced challenges. It has been debated by political scientists who argue that the 1970s were a turning point in Japanese politics. The relationship between the MOF and the LDP, however, was not a zero-sum game. Instead, the two managed to achieve cooperation during the 1980s. Vogel argues that, “in practice the ministries and the LDP negotiate closely with each other, leaving political scientists to debate endlessly over which one really dominates the policy process” (2006, 41). Curtis also argues that “the relationship between bureaucrats and politician during the long period of LDP one-party dominance cannot be explain in terms of a zero-sum game in which the bureaucrats had all the power and the politicians had non” (2000).

Kato further emphasizes the interaction between bureaucrats and politicians based on the cooperation by sharing common expertise (1994). As in the all advanced nations, a convergence of politician and bureaucrats in policy making is emerging (Muramatsu and Krauss 1984). Shun’ichi Furukawa, in his “Political Authority and Bureaucratic Resilience,” further argues that this interaction between bureaucrats and politicians, which has been characterized by cooperation among those sharing common expertise, are in fact the main

factors that lead to the weaker political authority over bureaucracy and the source of constraint of administrative reform in Japan (1999).

This section, as a background, evaluated how the bureaucrat's capability shifted over time and their influence on policies and politicians. One essential point we must acknowledge is that bureaucrats had the capabilities to lead the growth of the state and because they were so strong, they were the main source of the blame. However, as Johnson argues, gradually from the 1960s there was decline in the power of the bureaucracy and as Vogel contends, it must be recognized that strong bureaucratic influence that dominated the nation's post-war boom before the 1990s has been weakened along with several scandals and economic slumps. Kato further explains this shift as, "in Japan, where bureaucracy played a major role in modernization and authoritarian rule, the convergence of the roles of politicians and bureaucrats comes from the increasing power of politicians during the democratization process" (Kato 1994, 13).

Despite the two mainstream traditional debates on the "dominant bureaucracy school" versus "dominant politician school", this study focuses on the interaction of politicians and the bureaucracy on the policy-making process.

Despite the fact that this study does not take the position for either the “bureaucratic dominant” or the “dominant politicians’ school”, the framework lies on the “bureaucratic superiority” on the policy-making process based on the analysis of the consumption tax hike case in 2012. Based on the framework, it aims to show how Noda and DPJ have made the revival of “bureaucratic superiority” on the policy-making process possible.

### **3. DPJ’s Election Manifesto: towards ‘politician-led government’ under DPJ, declaration of war on bureaucracy**

The victory of DPJ in 2009 was a remarkable political event as Japanese politics were under the LDP rule in almost all the years since the end of World War II. The Prime Minister Yukio Hatoyama was elected on September 16th 2009 with a high level of popularity and with great expectations for the DPJ administration. As he was the first prime minister of DPJ “with no model to go by, he has only a blank canvas to work with” (Asahi Shimbun 22<sup>nd</sup> September 2009). The primary goal of the new administration was to establish a strong foundation to perform political leadership on policy-making within the government ministries and the “proposed Administrative Reform Council is to work at eliminating administrative waste and corruption” (Asahi Shimbun 22<sup>nd</sup>



September 2009). Hatoyama introduced a series of institutional changes in order to abolish the existing bureaucracy controlled government and to establish a “politician led government” and “a true people centered government” (Shinoda 2013, 799). The politician-led policy-making meant fixing two major characteristics of the traditional policymaking system, weakening the strength of bureaucrats and eliminating the dual structure (Mishima 2015, 436).

Asahi Shimbun on September 2nd 2009 reported that, “the National Strategy Bureau that will be created to answer directly to the prime minister will hold the key to the successful functioning of this system under which the administration takes the initiative and reduces dependence on the bureaucracy.” Furthermore, in order to dismiss the traditional "bottom-up" budget compilation process, which was under Finance Ministry bureaucrats’ charge, the top-down approach will be used to decide the priority of policies. “This bureau is pivotal to the new administration's decision-making setup with the prime minister at the top of the pyramid” (Asahi Shimbun 2<sup>nd</sup> September 2009).

Furthermore, the new administration formed “Three Political Appointees’ Conference” (Seimu Sanyaku Kaigi) in each ministry as a top policy-making body. In order to “plan and coordinate policies from a people’s

point of view,” policy decisions were made by the minister, deputy minister, and parliamentary secretaries (Shinoda 2013, 800). “The DPJ wanted to get its political executives to act as the ‘master’ in their ministry and command organizational processes” (Mishima 2015, 437). Furthermore, to take away budget authority from MOF, the Government Revitalization Unit (Gyosei Sasshin Kaigi) was established directly beneath the prime minister. DPJ expected a scenario of politician –led budget formulating where they can use revenues for social security and promote economic growth by cutting wasteful spending rather than under bureaucratic control (Tanaka 2014).

Over the first 12 days as prime minister, in comparison to the previous LDP government, Hatayama met 26 Cabinet ministers and only eight bureaucrats. Where Taro Aso met with 21 ministers and 24 bureaucrats, while Yasuo Fukuda met with 16 ministers and 27 bureaucrats and Shinzo Abe met with 21 ministers and 19 bureaucrats over the first 12 days of their respective administrations (Asahi Shimbun 7th October 2009).

Hatoyama quickly abandoned the administrative vice-ministerial meeting which was a symbol of the bureaucracy’s supremacy. In fear of bureaucratic manipulation, political executives kept detailed technical matters

to themselves, shared minimal information to bureaucrats and did not allow bureaucrats to attend to the Conference of Three Political Executives in many ministries (Mishima 2015, 438). In brief, “the people's elected representatives will make decisions first and then tell bureaucrats what to do” (Asahi Shimbun 2nd September 2009). Asahi Shimbun on October 7th, 2009 reported that, “bureaucratic memos have no place in the new administration led by Prime Minister Yukio Hatoyama's Democratic Party of Japan” since the Cabinet members made decision to not look at it. Bureaucrats were allow to offer their input on relevant data, but were no longer allow to offer memos instructing them on what to say.

In short, with reference to the Britain model, to move away from traditional LDP decision making process and to establish political leadership, Hatoyama as DPJ leader, introduced several institutional arrangements to reduce bureaucratic power. The following chapter 3 explores the revival of bureaucratic influence and analyzes their impact on the case of Noda's consumption tax.

### **Chapter 3: Application of Theoretical Framework on Noda Government**

Various assumptions were made to explain why Prime Minister Noda was so eager to push the consumption tax increase. Among many scholars, the major rationale considered to be based on the concrete economic perspective, a possible fiscal crisis along with the rapidly aging Japan. To explain the underlying rationale behind Noda's sacrificial decision, in a concrete economic perspective, some believe that Prime Minister Noda did what he had to do for the sake of his nation. Although this study acknowledges the importance of consumption tax increase, the issue of neither fiscal expenditure nor the aging phenomenon is new to Japanese politicians. "Everyone knew that consumption tax increase was necessary, but the reality is that nobody takes the initiative" (Park 2015). According to the rational choice perspective, re-election is the primary concern for party politicians in general as it is true that the LDP politicians' concern for re-election is a significant element in explaining policy outcomes in general (Kato 1995, 327).

Gerald Curtis in his "The Japanese way of politics" argues, the secret of LDP's long success could be ascribed to a strong determination to win the election (1988). When the Prime Minister Masayoshi Ohira proposed the VAT

for Japan in 1979, it incurred significant political costs for policymakers, resulting in public fury and thus, poor showing of the LDP incumbent in the general election of the Lower House of the Diet (Kato 1994). Due to public opposition, there have been several years of delays until the LDP finally activated the passage of the new tax, which made the LDP crippled over the control of the Diet for the first time since. The next attempt under the Hosokawa administration in 1994 faced fierce opposition and eventually resulted in the collapse of the administration. The consumption tax in Japan could be described as a taboo that most prime ministers tried to avoid as “the consumption tax has long been the issue that sparks irrational anger and discontent in the usually placid Japanese general public” (Duignan 2013).

Despite the fact that consumption tax increase may be inevitable from an economic perspective; this thesis analyzes Noda’s choice and outcome from a concrete political perspective. Moreover, some argue that DPJ had no choice but to raise tax due to the financial burden resulted in their initial promises on social welfare. Nevertheless, based on the political perspective, this explanation leaves further puzzles since their effort to keep their promise on social welfare plans is equally important as their first manifesto to keep the promise to not to increase the consumption tax for next four years. In fact, the violation of public

pledge to not to increase consumption has more negative influence in terms of public condemnation. According to the book, “The Rise and Fall of Democratic Party of Japan,” there are three major factors that contributed to the decline of the approval rate of DPJ: the consumption tax issue, money and politics, and diplomatic issues. Regardless the fact that the consumption tax policy has about an equal rate of support and opposition; it has major influence on the cabinet approval rate (Park 2014, 145). Thus it is difficult to see Noda was so eager to pass consumption tax hike bill due to the overwhelming financial burden resulted from DPJ’s initial social welfare pledges.

While acknowledging the fact that there are various elements to explain the fall of the DPJ, this thesis focuses on Noda’s decision to raise consumption tax in 2012. The consumption tax is a particularly important factor to explain the fall of DPJ since it caused the major defection of the party with 66 members leaving (out of total 74).

## **1. Bureaucrats under Noda Administration and Policy-Making Process**

The DPJ rose to power by criticizing the close relationship between the three points in the iron triangle under LDP. They attempted to end the close ties between bureaucrats, businesses, and politics in favour of a system where politicians would occupy the main policy-making roles. One of the most important manifestos of DPJ was to remove all wasteful spending caused by traditional bureaucratic policy making system. Prime Minister Hatoyama attempted to establish administrative renovation council to cut unfair element in nation's budget and the administrative system which he described as "a historic shift" (Asahi Shimbun 29<sup>th</sup> July 2009). Just as other DPJ members, Noda used to criticize amakudari practices and informal ties between the Japanese politics, bureaucracy and business (Zakaowski 2015). Despite these promises and initial changes made under the DPJ, there was a reversion back to the old, LDP-model of politics by the time Noda took power in 2011. Additionally, the DPJ promised to not increase any taxes as well as to curtail bureaucratic power – all of which resulted in failure.

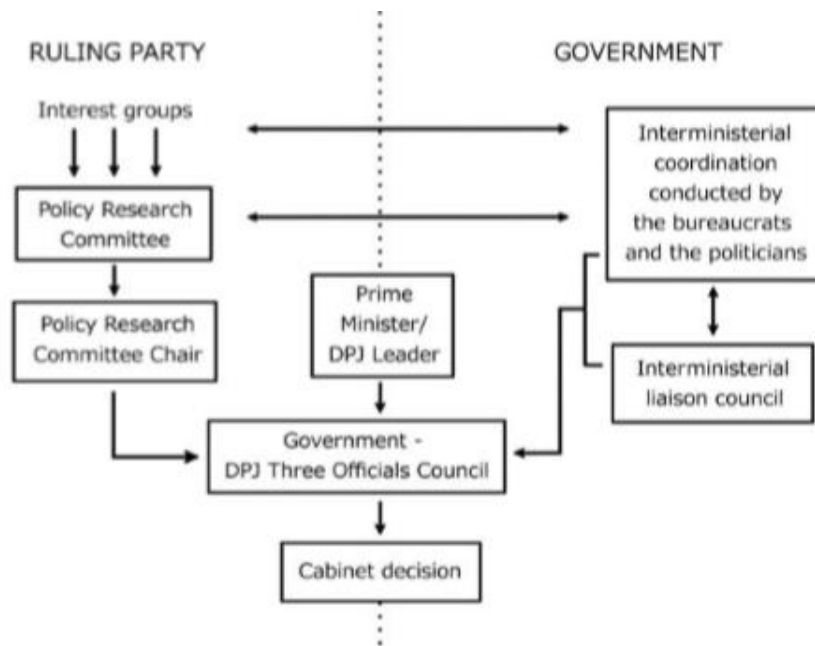
Therefore, the DPJ government has been accused of “dancing to the tune of the Ministry of Finance”, and there has been criticism on Kan and his successor Noda that issued calls for fiscal rehabilitation which has long been at the top of the MOF’s agenda in 2012 (Izuru 2011). Similarly in the past, Kato argues that from the late 1970s and late 1980s MOF continued to be a major advocate of reforming the tax system through a major indirect tax on consumption and this period is “when LDP began to incline toward the introduction of VAT that the MOF proposed” (Kato 1994).

Despite Noda having once stated that, "Japan has no time to waste if it is to regain fiscal health. But I am not a fundamentalist devoted to fiscal discipline" (Asahi Shimbun 3<sup>rd</sup> September 2011). At the news conference on September 2nd, he speedily moved toward a strong an advocacy of tax increase. Hrebenar and Nakamura in their book, “Party Politics in Japan” argues that considerable “energy had been wasted on unproductive power games between politicians and bureaucrats” until Noda establishes smoother relations with bureaucrats which was characterized the operations of the Finance (2015, 103). Noda re-defined the meaning of a politician-led government in his own terms:



“The competition for leadership between the politicians and the bureaucrats has been unproductive. Without making a full use of the bureaucratic organization that constitutes a group of experts, it is impossible to effectively administer the country. ( . . . ) It is crucial to establish a reasonable institutional management” (Noda 2011).

**Figure 1.** The Decision-Making Process under Noda Administration



(Source: “Decision-Making Reform in Japan” Zakaowski)

Noda tried established a better relationship with the bureaucrats (Shinoda 2013, 224). He tried to restore the party’s relations with bureaucrats

and relied on their expertise and guidance much more widely. Figure 1 represents the decision-making process of the Noda administration (Zakaowski 2015). By institutionalizing activity of the inter-ministerial liaison council, Noda was able to sustain more effective relations with bureaucrats which also meant that it was on the way back to the traditional bottom-up decision-making process. “He tried to mimic the LDP’s traditional policy making system” (Mishima 2015, 441). Noda specifically announced that decisions will not be made without the consent with the DPJ Policy Research Committee. Furthermore, Noda re-established the DPJ Tax System Research Committee, a crucial decision-making body, which was abandoned in 2009 under Hatoyama government.

Karol Zakaowski in his “Decision-Making Reform in Japan” laid out some specific details of how the relationship between Noda and bureaucrats restored. After the invitation of all the administrative vice-ministers to Noda’s residence on September 6th 2011---at the request of their cooperation on rebuilding after the natural disaster--- “the number of direct contacts between the prime minister and civil servants increased considerably” (2015). Just two days after becoming the prime minister, Noda exercised LDP-like practice of bringing one of his administrative secretaries to accompany him as a “suitcase

carrier” (Kuboniwa 2012, 143). Furthermore, the administrative secretaries were able to have dinner with the prime minister, which provided them greater opportunity to investigate Noda’s intentions (Zakaowski 2015).

Noda arranged the regular Friday meetings of the senior officials as permanent. After the September 9th meeting where 17 vice minister-level bureaucrats gathered at Noda’s Official Residence for a working lunch, Taketoshi said, "it is important to share information and the meetings are useful for improving communications” (Asahi Shimbun 10<sup>th</sup> September 2011). At a September 9th news conference, Osamu Fujimura, a Chief Cabinet Secretary, further claimed that, "it will become a much wider ranging meeting than in the past. It should by no means be considered a revival of the vice ministers meetings.”

Contrary to the old Conference of Administrative Vice Ministers, the new weekly meeting , “was not given authority to sanction the Cabinet meeting’s agenda, but its launching gave the green light to the bureaucracy’s full-fledged undertaking of coordination among political actors” (Mishima 2015, 441). Ko Mishima, in his “The Democratic Party of Japan’s Unsuccessful Policymaking System Reform” argues that, “bureaucrats completely regained

their traditional strength” (2015). Bureaucrats once again became the central stage of policy making by retrieving traditional responsibility for political coordination. Just as under LDP years, they regularly visit parliamentarians’ offices for the briefing for political consultation. On January 2012, Noda canceled the policy that disallowed the chief of the Cabinet Legislation Bureau to answer parliamentary questions. “Noda extensively relied on the MOF bureaucrats’ help” (Mishima 2015, 442).

“The fact that he (Noda) committed himself so strongly to the consumption tax increase shows the very heavy influence of the Ministry of Finance,” said Koichi Nakano, a political science professor at Sophia University in Tokyo, “politically it’s remarkable that the MOF managed to convince Noda to bring about a collective suicide of the whole party” (Reynolds and Hirokawa 2012b). Moreover, Yoichi Takahashi, a former finance ministry official has stated that, “the Ministry of Finance is not just on its way back to power, it’s already there,” when Noda defied opinion polls and allowed the breakup of his own party to push the ministries to double the sales tax (Reynolds and Hirokawa 2012b).

The Asahi newspaper reported that when Noda uses the expression such as “revenue reform” instead of “tax hikes,” and when he failed to be specific on many issues, “some people may rightfully dismiss his speech as a ‘composition written by bureaucrats’ ” (Asahi Shimbun 14<sup>th</sup> September 2011). Tomohito Shinoda, a Professor at the International University, stated that, “many experts observed that the prime minister was controlled by the bureaucrats, like many past LDP prime ministers” (Shinoda 2013, 227) and that Noda was the ministry’s puppet (Yakushiji 2012, 139).

Noda lacked the experience in working as a bureaucrat or as a white a-collar worker that has managed big organizations (Zakaowski 2015, 161). Moreover, Noda has never worked as party secretary-general or policy chief, and “his only Cabinet experience is the last 15 months as finance minister” (Asahi 31<sup>st</sup> August 2011). He tried emulate LDP-like practices but, “he lacked both the experience and personal connections to maintain the politics of harmony in the face of tough political struggle” (Zakaowski 2015). Indeed, Noda’s such background made it “even easier for the bureaucrats to regain their role in coordinating contradictory interest and seeking inter-ministerial consensus within the framework of ‘a reasonable institutional management’ announced by the new prime minister” (Zakaowski 2015). Sakakibara Eisuke, a

former MOF bureaucrat argues that “this lack of experience in administration or the private sector made Noda more prone to pressure from the bureaucrats” (Sakaibara 2012).

Despite the fact that Noda did not demand high-ranking bureaucrats, such as administrative vice-ministers or bureau chiefs be accompanied by politicians when making appointments with him, (Yakushiji 2011) Zakaowski claims that, “the ministers who met with Noda were usually accompanied by bureaucrats” (2015). Prime Minister’s Aide Suematsu Yoshinori stressed that the MOF officials, in particular, significantly increased good access to the prime minister. Suematsu further claims that, unlike other ministries, finance ministers were accompanied by an administrative vice-minister who acted as an ‘overseer’ when they visited Noda and it became like a rule. There was even growing concern since Noda was constantly surrounded by the MOF bureaucrats at the end of 2011(Zakaowski 2015).

Kato argues that when bureaucrats choose an objective that they cannot attain immediately, over time, they rationally engage a strategy designed to lead to policy outcomes as she says, bureaucrats first seek to get “reliable political sponsors for their proposed policies among incumbent politicians” (Kato 1994,

11). In turn, Noda, like his predecessor Kan, has ditched the party's no-tax promises. Furthermore, Kato argues that incumbent politicians, who have gained specialized knowledge and expertise primarily from exposure to and interaction with bureaucrats during long careers are more likely to accept if they consider the bureaucrats' proposal as sensible in terms of their specialized knowledge and acquired expertise. Thus it is arguable that Noda's lack of experience in administration and the private sector management made Noda more prone to pressure from bureaucrats' use of a strategic approach. Once Noda was exposed to the MOF's expertise, combined with Noda's specialized knowledge on the tax issue gained from himself served as senior vice finance minister and head of that ministry for two years, it was easier for the Finance Ministry to convince the necessity of consumption tax on Noda.

Tomoyuki Taira, a novice lawmaker, claimed that we all had this hope that we reached a historic change with the 2009 election victory and that this would guide Japan through a new era, "but it was actually easy for bureaucrats to manipulate someone with such naive elation and optimism" (Asahi Shimbun 29<sup>th</sup> June 2012). He further stated DPJ failed to pursue the politics of performance and, "now the bureaucracy is emerging as the sole player

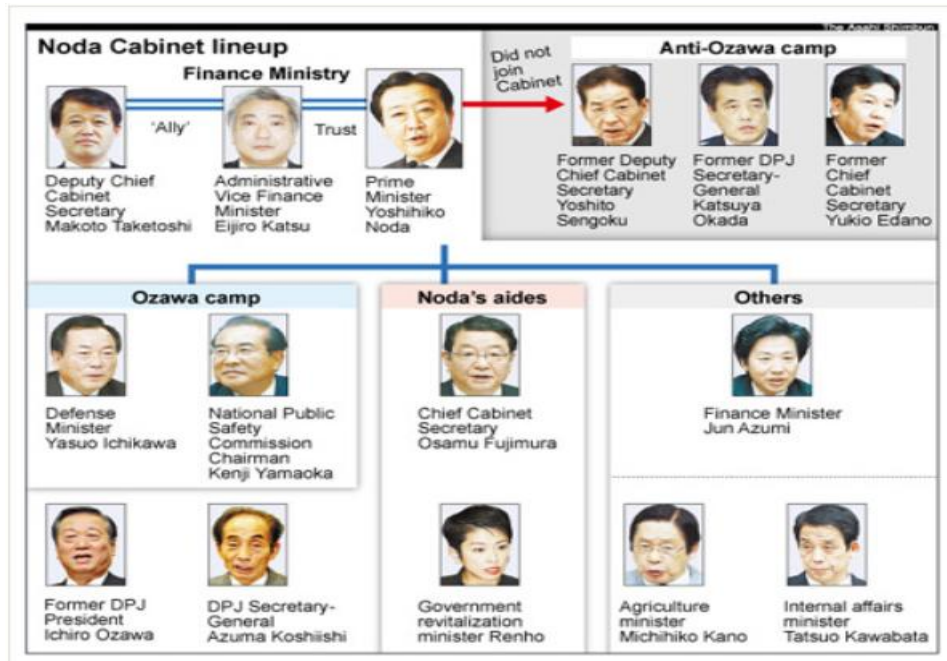
controlling and propagating its vested interests, and the resumption of the Oi reactors is evidence of this Kafkaesque bureaucracy.”

## **2. Noda’s Cabinet Lineup and Relationship with Eijiro Katsu**

This section explores Noda’s cabinet lineup and investigates Noda’s relationship with MOF, particularly with Eijiro Katsu, administrative vice finance minister who wields enormous influence. On the evening of June 16, Ozawa’s associate clandestinely contacted Noda and conveyed Ozawa’s hope for Noda to freeze any increase in the consumption tax rate before June 20th when government and ruling party panel is scheduled to announce a proposal to increase the sales tax rate as part of a plan to reform the social security system. According to the associate to whom Noda responded that, “if he should readily freeze any move to raise the tax rate, he would lose the trust of the Finance Ministry and that would have a negative effect on managing the government” (Asahi Shimbun 20<sup>th</sup> June 2011). Masato Hara, an editorial at Asahi Shimbun, in the discussion of “conspiracy theory”, has claimed that Noda is a “puppet” of finance ministry honcho Eijiro Katsu (Brasor 2012).



**Figure 2** Cabinet Lineup of Noda Administration



(Source: Asahi Shimbun 2011/09/03)

Beyond Kato's theoretical framework, this study argues that bureaucrats not only strategically target reliable sponsors for their pursuing policy goals, but they also strategically educate young politicians and bureaucrats in advance and plant them into the Cabinet at the appropriate time in order to promote bureaucratic influence on policy-making and to finally achieve their goals. The suspicion grew with the replacement of Kinya Taiko, who often faced conflicts with the Finance Ministry, to Makoto Taketoshi.

Asahi Shimbun reported that, “former Finance Ministry officials had asked Noda to get rid of Takino, who locked horns with the Finance Ministry over local tax sources and other issues” (Asahi Shimbun 3<sup>rd</sup> September 2011). According to Asahi Shimbun on September 3rd 2011, many bureaucrats were surprised by the appointment since it was uncommon for an incumbent administrative vice minister to become deputy chief Cabinet Secretary and it was the first time for an individual from the land ministry to be selected as deputy chief Cabinet Secretary. The close relationship of Taketoshi and Eijiro Katsu was accused as senior industry ministry official claimed that, “it was a pretty ingenious appointment, clearly masterminded by the Finance Ministry” (Asahi Shimbun 3<sup>rd</sup> September 2011).

Furthermore, “many bureaucrats believe the Finance Ministry pulled strings behind the scenes to secure the appointment of the deputy chief Cabinet secretary who oversees the nation's bureaucracy” (Asahi Shimbun 3<sup>rd</sup> September 2011). A senior ministry official further stated that, “(Taketoshi's appointment) was arranged by Katsu” and former finance minister further witnessed that “Taketoshi and Katsu are as tight as thieves. I've sat at the dinner table with them on many occasions” (Asahi Shimbun 3<sup>rd</sup> September 2011). As shown in Figure 2, Noda maintains his trusts with the Administrative Vice

Finance Katsu and his ally Deputy Chief Cabinet Secretary Makoto Taketoshi. The September 9th meeting, where 17 vice minister-level bureaucrats gathered at the Prime Minister's Official Residence, was also chaired by Taketoshi (Asahi Shimbun 10<sup>th</sup> September 2011). Kato argues that bureaucrats rather strategically target politicians as “sharing policy information and knowledge with incumbent politicians is compatible with the promotion of bureaucratic influence in policy-making” (1994, 38). At this meeting, Taketoshi emphasized the importance of sharing information and “the meetings are useful for improving communications” and this regular Friday meetings of the senior officials becomes permanent under Noda (Asahi Shimbun 10<sup>th</sup> September 2011).

Takahashi Yoichi, a former Finance Ministry bureaucrat and an official in the Koizumi administration, sarcastically commented on the “real Japanese prime minister” and argues that Noda is the backstage prime minister (Takahashi 2011). Hasegawa Yukihiro, a member of the Tokyo Shimbun editorial board and college professor, explore the Noda’s administration and observe closely on his Cabinet lineup. He argues that Noda’s administration vividly shows an arrangement toward the policy of tax increase and, “also the consensus of opinion is that Katsu Eijiro, the administrative vice-minister for

the Finance Ministry, is the producer and scriptwriter for this administration that's making a beeline to tax increases" (Hasegawa 2011).

Hasegawa further argues that, "the reason for a structure with this depth of personnel is to suppress the anti-tax sentiment (in the party) and achieve a tax increase" (2011). Noda appointed Maehara Seiji, a former Foreign Minister, to the party's policy chief who has important position on determining a policy, Sengoku Yoshito, a former Chief Cabinet Secretary and also known as Maehara's ally, as the acting policy chief and Fujii Hirohisa, a former Finance Ministry bureaucrat and Finance Minister as the party's tax policy chief (Hasegawa 2011). Takahashi further states that having LDP agreed to the tax increase, Finance Ministry wishes tax increase proposals will be initiated by the government and the key is how to suppress the anti-tax elements in the party and "that's why the priority in the selection of the personnel appointments was placed on the party rather than the government" (Takahashi 2011).

Moreover, Motohisa Furukawa, a former Finance Ministry bureaucrat, was appointed by Noda as minister of economic and fiscal policy to oversee simultaneous reforms of taxes and social security. Asahi reported that, "Noda is considering reinstating the Council on Economic and Fiscal Policy, a powerful

body in the Koizumi administration, and having Furukawa take charge of discussions” (Asahi Shimbun 3<sup>rd</sup> September 2011). A senior official from another ministry stated that, “(The setup) would give the Finance Ministry more opportunities to wield influence over policy discussions.”

Takahashi argues that Noda’s “Cabinet itself consists of lightweights, but the Finance Ministry bureaucrats that were sent over are all heavyweights” (2011). Hasegawa further explains the reason for selecting lightweights for the Cabinet taking into account how much weight they placed on the party. Azumi Jun was selected as Finance Minister, who knows very little about financial policy, and Furukawa Motohisa as the Minister for National Policy who was the former Finance Ministry bureaucrat (Hasegawa 2011). “The Finance Ministry can completely control these two. Also key is the appointment of Katsu Eijiro as administrative vice-minister” (Hasegawa 2011). According to Asahi Shimbun, “Finance Ministry bureaucrats approached Azumi even before the change in government because he stood out for his handling of Diet affairs,” and the ministry has regularly held policy study session with Azumi, assigning Shigeaki Okamoto, a budget examiner and his acquaintance, as his teacher (5<sup>th</sup> April 2012).

Takahashi further assured that having a Tango Yasutake as a deputy Finance Minister is a clear giveaway of Finance Ministry control (2011). Furthermore, the choice of MOF to appoint Yoshii Hiroshi, a Finance Ministry mid-level senior bureaucrat who joined in 1988, as the parliamentary secretary for Ren Ho (the Minister of State for Government Revitalization) was another strategy since, “the portfolios of government revitalization and civil service reform given to Ren Ho are important for the bureaucracy, so it’s clear their objective is to keep a lid on it,” and in addition, “she has some star appeal for the DPJ, is a capable speaker, and attracts a lot of attention” (Takahashi 2011).

Katsu’s personnel appointments were carefully thought out. Yoshii was sent over by Katsu, as a secretary, even when Ren Ho was a minister under Kan’s Cabinet (Takahashi 2011). Yoshii maintained his position as her advisor even when she was degraded to the job of special advisor to the prime minister, and served her ever since. “Mr. Katsu has perceived the value of using Ren Ho and so is keeping her marked” (Takahashi 2011). Takahashi emphasized the strong ties and personnel network by the powerful trio including, Furukawa Motohisa, Ito Hideki and Yoshii Hiroshi who entered MOF in 1988 and shared three weeks intensive “boot camp” (2011).

Asahi Shinbum reported that, Mitsuru Ota, a deputy director-general of the Budget Bureau, considered an ace bureaucrat, was also sent by the Finance Ministry as an aide to the prime minister (Asahi Shimbun 3<sup>rd</sup> September 2011). Takahashi further explains, “with Ota Mitsuru of the class of 1983 as the prime minister’s parliamentary secretary, and the number of parliamentary secretaries they’ve had assigned, the Finance Ministry can pretty much run the Cabinet. To be blunt, they don’t care who the ministers are” (2011). Hasegawa also argues that, “Katsu has engineered a complete shift toward a tax increase both within the Cabinet and in the ministry” (2011). As early as October 5 2011, Takahashi, who had served as bureaucrat for the MOF, laid out the Katsu and Finance Ministry scenario:

Noda was asked by the opposition whether he should take the issue to the people (in a general election) before increasing the consumption tax. The prime minister answered, ‘We will ask for their trust before it goes into effect.’ That seemed to satisfy both the public and the mass media, but there is no question that is a trap laid by the Finance Ministry. ‘Asking for their trust before the tax is raised’ usually means holding a lower house election on that issue, but ‘asking for their trust before it goes into effect’ means they will hold the election after the bill for the tax increase has passed and before it is implemented. In other words, they will submit and force through an increase in the consumption tax during the

regular session of the Diet next year, as is already planned. After that, they will hold an election at what they consider to be a suitable time. That way, because the bill has passed, the consumption tax will be raised whether or not the ruling party wins. (2011)

Takahashi further argues that it is impossible to stop the tax increase by freezing legislation just before it goes into effect since there will not be sufficient time to submit a bill freezing the implementation if they hold a general election just before taxes are raised (2011). “That sort of schedule management is the forté of the Finance Ministry, and that’s why they sent all those accomplished people over to the Cabinet as parliamentary secretaries” (Takahashi 2011).

The Nikkei newspaper on December 30th 2011 reported that when Noda came back from his trip to India, he immediately met with Finance Minister Jun Azumi and vice minister Eijiro Katsu to discuss the detail plans of the tax increase. After the discussion with Hirohisa Fujii and Seiji Maehara, “they decided that Noda would attend a joint session of Fujii's committee and a committee on tax and social security reform. The game plan was to build



support for committee members to give the chairman the final say” (The Nikkei 30<sup>th</sup> December 2011).

Moreover, Zakaowsk further claims that the “conspiracy” grew when anti-mainstream politicians detected that the bill project had a paragraph that stipulated a necessity to implement another taxation reform by 2016 and “it turned out that the MOF bureaucrats had secretly modified the government decision from February 2012 in order to prepare the ground for further VAT hikes in the future” (Zakaowsk 179).

Apart from the tax increase issue, Noda has been accused to be a mouthpiece of bureaucrats, “reactor restarts show Noda is a puppet of the bureaucrats” (Asahi Shimbun 29<sup>th</sup> June 2012). At the interview of Taira, he stated that the disappointment of “twisted” words from Noda lead his decision to resign from his political career. When Noda declared to resume operations of the two nuclear reactors in Fukui Prefecture to protect the lives of the people, Taira claimed that, “all I heard was the voice of government technocrats spilling out of the prime minister's mouth” (Asahi Shimbun 29<sup>th</sup> June 2012).

He further claimed that, "though we were entrusted by voters to bring common sense to politics, Noda and all the current executives of the DPJ have degenerated into mere 'speakers' of the bureaucracy, which has revealed its nature as a self-propagating machine." Taira further analyzes Noda's recent speeches, including his June 26th statement on tax hike and argues that, "he uses intimidation rather than sincere efforts to win the public's consent." He further contends that, "the lawmaker described the DPJ's regime so far as a three-year process of the party falling under the initiative of bureaucrats." And Noda's "decision to restart the Oi reactors and the Lower House's passage of legislation to increase the consumption tax are ultimate victories of the bureaucracy" (Asahi Shimbun 29<sup>th</sup> June 2012).

### **3. Media and the Triple Disasters**

Kato does not assume that bureaucrats are superior to incumbent politicians in gathering information about social interests involving a certain policy issue, but rather in order to achieve policy objectives, bureaucrats need the cooperation of incumbent politicians who have links to social interests and to reduce opposition (Kato 1994, 11). This section argues that MOF controlling

the media skillfully persuaded the public for the need of a tax increase by using Noda and an external situation such as the Triple Disaster 2011.

**Table 1:** Monthly Survey Results on the Consumption Tax Increase

Date	Agree	Disagree
September 2011	57%	32%
October 2011	45%	46%
November 2011	50%	42%
December 2011	45%	45%
January 2012	34%	57%
February 2012	40%	46%
March 2012	41%	46%
April 2012	40%	51%
May 2012	39%	51%
June 2012	39%	52%
July 2012	37%	46%
August 2012	28%	56%
September 2012	43%	47%

(Source: Asahi Shimbun Regular Public Opinion Poll, date organized by author)

Table 1 indicates the monthly public opinion poll conducted by Asahi Shimbun during Noda's administration on the issue of consumption tax hike. Despite the assumption of a strong refusal from the public, other than January 2012 and August 2012, there was a fairly even proportion of "agree" and "disagree" responses within the range of 40-50 percent. Moreover, surprisingly,

the decline of support in August 2012 increased to 43 percent in September 2012. The Asahi Shimbun Regular Opinion Poll conducted on June 28 2012, 60 percent did not support for Ozawa's objection to the new tax hike whereas there was only 29 percent of support. When the question was asked whether it was necessary to raise the consumption tax in order to protect current social security measures, 60 percent answered "yes" and only 30 percent responded "no" (14<sup>th</sup> February 2012). Based on the opinion poll, the public generally understood the necessity of the tax increase. The Noda government itself launched a large-scale campaign in the media, "Noda himself appeared in the ads, explaining in simple words the need for the VAT hike" (Yomiuri shinbun seijibu 2012). On August 27, Noda stated that, "it is the role of the ruling party to guide public opinion into accepting higher taxes because such a move is unavoidable," to other candidates in the DPJ presidential election at the news conference (Asahi Shimbun 29<sup>th</sup> August 2011).

Similarly, Takahashi Fumitoshi argues that the consumption tax increase in 1997 was met with little public opposition with "careful manipulation of the news media by Ministry of Finance" (1999). Long before the tax increase, the MOF repeatedly emphasized the benefits of the tax would play in bolstering the economy but instead it caused the negative growth in

1997 and has contributed to the current prolonging of Japan's recession. The one major reason why the consumption tax was raised without strong public resistance in 1997 is that the major daily newspapers believed it was unavoidable and thus did not try to oppose the MOF. Even if the major newspaper companies fully knew that the MOF had plans to gradually increase higher tax as opportunity arose, "they supported the increase because they were manipulated" (1999, 97).

In order to manipulate the newspapers and thus the public, the MOF skillfully orchestrated the clash between the Asahi and Yomiuri editorials, and linked the demand for reduction in income tax to the increase in consumption tax (Fumitohsi 1999, 102). Fumitoshi states that, "Thanks to the clever manipulation of the major dailies by the Ministry of Finance early on, all of the newspapers had advocated the quick implementation of income tax deductions in exchange for a consumption tax increase, and thus they were in no position to condemn the consumption tax hike"(1999, 99). He further emphasizes the role of "Study Session":

One of the main ways MOF managed to do this was its monthly 'Study Sessions' with the editorial staff of the major national newspapers, the Asahi,

Yomiuri, Mainichi, and Nikkei. These meetings are attended by high-ranking MOF officials, such as the heads of bureaus, and are a time for the government to conduct its own public relations. When necessary, “MOF officials meet with the editorial staff of each newspaper individually to make certain they are swayed by the MOF view. (102)

As Fumitoshi argues that the consumption tax did in fact contribute to Japan’s prolonged recession, in reality with regards to the consumption tax issue, the economists are divided. The economists argue that supporters say it was inevitable due to current and future fiscal conditions. Whereas, “opponents of the new tax hike say it [will] plunge Japan on to recession” just like past experiences and will eventually dampen consumption (The Economist 2012).

Hasegawa Yukihiro, a member of the Tokyo Shimbun editorial board, argues that, “if you dig just a little deeply, you find that the Finance Ministry is really driving the government,” and the pet reporters trying to find better relations with MOF bureaucrats since they will lose connections otherwise (Hasegawa 2011). “Nearly every day you can pick up the newspaper and read stories about the need for all sorts of taxes — income taxes, corporate taxes, inheritance taxes, environmental taxes” creating an atmosphere in which

everyone trusts that tax increases are unavoidable. He further argues that that strategy of MOF using the media, “and the person driving the Finance Ministry now is Katsu Eijiro” (Hasegawa 2011).

Kimiko Kuga, in her newly published journal article, argues that, “a cozy relationship between authorities and affiliated journalists encouraged by the institution of Kisha Kurabu has created a structure in which journalist must take the side of the authorities and share similar values and norms with them” (2016, 16). “Kisha Kurabu” refers to the associations of newspaper companies and television stations, and the journalist who is a part of Kisha Kurabu must work at one of the major newspaper companies or one of the key television stations. Based on the interviews with a member of Kisha Kurabu at the Ministry of Finance and experienced journalists---Youchi-asagake---she assures that in order to obtain new information they visit news sour’s house day and night and in the case of Kisha Kurabu member at the MOF, he visits the house belonging to the section manage at the Ministry almost every evening. In order to get information and such access, journalists attempt to develop good relationship with the sources and, “due to the such customs, all of my interviewees admitted that is was difficult for them to criticize their source and that they mostly tried

to find something congenial to say based on the information they were provided” (Kuga 2016).

Furthermore, the horizontal relationships between journalists have developed a structure where nearly all newspapers take the same line on any particular event and if the journalists do not follow the rule, sections so called dekin “prevents journalist from gaining information on current events related to their affiliated authorities.” The worst scenario for the newspaper company is that it is the only one not provided with the information that every other ones printed in the newspaper or broadcast on air, and “Journalists at Kisha Kurabu therefore mostly tend to follow their news source’s requests even though some of them would constitute a restriction of press freedom” (Kuga 2016, 15).

According to an article issued in Shukan Post on January 27, the major media “had fallen under the spell of the Ministry of Finance which has been pushing for a consumption tax increase forever and has always had Noda in its pocket” (Brasor 2012). Moreover, Shukan Post further assures that it is pretty sensational to the public that “the weekly equates the selling of the consumption tax under Noda” (Brasor 2012). On September 3rd 2011, Asahi Shimbun reported that Noda and Finance Ministry spoke as one on tax hike and Finance



Ministry mandarins' long dream has come true, "who have long championed an increase in the consumption tax rate", by having Noda as their strong advocacy. There was no doubt that the MOF was giving its full support and backing to Prime Minister Yoshihiko Noda and even "some DPJ lawmakers have taken potshots at Noda, saying his candidacy in the party's presidential election was tantamount to a ploy by Finance Ministry officials to ensure that taxes are raised" (Asahi Shimbun 3<sup>rd</sup> September 2011). Noda met with senior Finance Ministry officials in the finance minister's office the day before the news conference on September 2nd and according to a senior ministry official who attended the conference, "he [Noda] essentially said he will raise taxes."

Former bureaucrats such as Shigeaki Koga and former DPJ leader Ozawa opposed the planned tax increase warning the future damage effect it will have to the economy, especially when it is struggling to the recovery from the Great East Japan Earthquake (Al-badri 2013, 57). In fact, "the more logical economic approach would be to not raise taxes after such a disaster because of the potential damage to domestic demand" (Duignan70). Despite the warnings, this thesis argues that the Triple Disasters that occurred in 2011, in fact, had contributed to the consumption tax hike in 2011 and the MOF took this external situation as a perfect method for it. According to Rene Duignan, sheer scale of

the 11 March 2011 tragedy has contributed to “finally waken an unprecedented sense of national solidarity and a public understanding of Japan’s collective fiscal responsibility” (2013). The Asahi opinion poll released in April 16, 2011 reveals that almost 60 percent of respondents agree for idea of increasing taxes to fund earthquake disaster reconstruction whereas 31percent disagree. Moreover, when the question was asked which would be better source for the bulk of earthquake disaster reconstruction funding, 48 percent answered it as ‘tax increase’. As Duignan argues, “the new sense of public responsibility came directly from the Tohoku disaster” (2013, 70).

The unfair reputation that the consumption tax was responsible for the bubble burst in 1990 or for the economic disruption resulted from Asia financial crisis in 1997, the public’s perception about the consumption tax has changed since the triple disaster (Duignan 2013). Thus this economic and moral epiphany enabled the government under Noda to firstly introduce “temporary” tax hikes in order to fund the large costs of reconstruction and “this created a momentum towards awareness of the fiscal burden facing future generations, which allowed authorities to take on the biggest economic and political challenge of all, raising the consumption tax.” As numerous public opinion polls revealed for the support for the temporary tax, “ordinary people believing

that the costs of reconstruction should not just be pushed to the next generation” which was truly a landmark occurrence” (Duignan 2013, 76).

The Reconstruction Design Council in response to the Great East Earthquake state that, “the direct cost of the disaster is expected to reach approximately 16.9 trillion yen” and emphasized the need for tax increase, “the financial resources for recovery and reconstruction must be secured by the entire currently living generation ... and the government should take specific measures for a temporary increase in taxes, especially centered on key taxes...” (2011, 36). Moreover, the Reconstruction Headquarters in response to the Great East Japan Earthquake was formed announcing “Basic Guidelines for Reconstruction” one month later its establishment. It emphasized “the main administrative actors accountable for the reconstruction shall be municipalities” and stated that, “temporary taxation measures” will observed as the financial resources (2011, 7). A Former Minister of Public Management, Yoshihiro Katayama, argued that, “the Ministry of Finance took the earthquake as a perfect occasion to raise tax” (Katayama and Uno 2011).

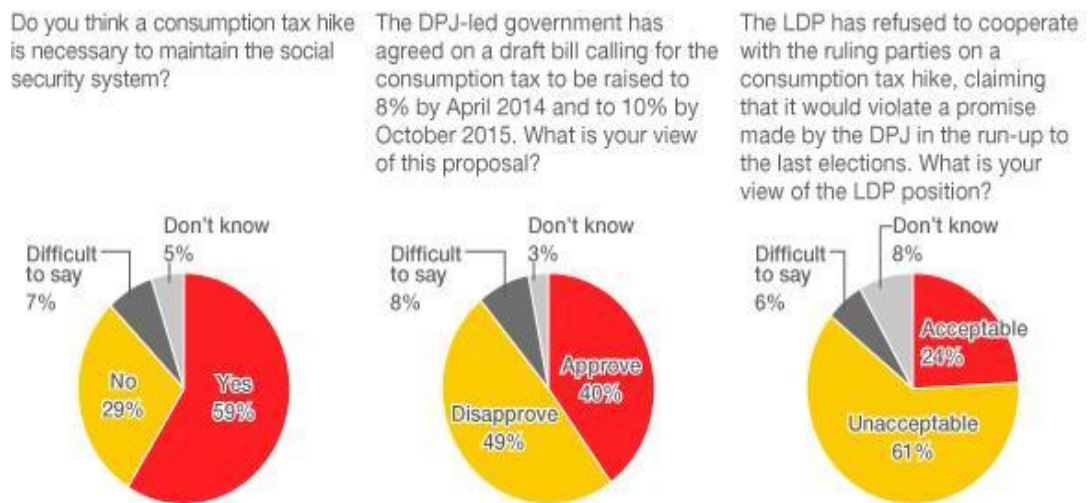
It is not that the MOF’s use of the media in order to convince the public that necessity of tax increase for the burden caused for the Triple Disaster is the

problem. Moreover, problem is not the Triple Disasters that itself has contributed in the waking the public awareness for raising taxes. Rather, the problem is the MOF using Triple Disasters in order to push the consumption tax increase without satisfactory reconstruction policy. Fukuo Akimoto summarizes Katayama's criticism towards government's reconstruction policy on Television's program "Prime News" on September 5<sup>th</sup>:

Since April I was adamant at the cabinet meetings that the national government should immediately decide financial assistance programs for local governments including land acquisition program, and then urge local governments to provide reconstruction plans quickly. This argument was based on my own experience as prefectural governor after the Tottori Prefecture Western Earthquake on October 6, 2000. Nearly ten days after the quake, when the prefectural government announced a new program to grant three million yen to each completely-destroyed house owner directly, people promptly went outside to search for builders. Later people told me that it was a kind of mental care. However, this time I was in a minority within the cabinet. A majority emphasized that the government should request local governments to prepare a reconstruction plan first, then examine these plans and determine financial assistance programs later. This attitude did not uplift the sufferers. Why did it happen? The Kan cabinet decided to raise tax first before providing financial

assistance program, assuming that tax increase is necessary to secure financial resources for reconstruction. (Akimoto 2012).

**Figure 3. Public Opinion Survey on Consumption Tax Hike**



Source (The Nikkei 2012/01/20)

Aside from the Triple Disasters, the MOF has always been pushing for higher taxes with the fiscal burden on social security system along with rapid aging society. Figure 3 represents a public opinion survey conducted by the Nikkei published on February 20th, 2012, Tango Yasutake, a top bureaucrat, argues that most of citizens in Japan recognize that the fiscal situation on

nation's social security system, and understand the necessity for a consumption tax hike to secure revenue for this. Based on the figure 3, he further argues, "that many newspapers and other media outlets are calling on the government and the ruling and opposition parties to hold talks on the issue without delay in order to start the integrated reforms of the taxation and social security systems as soon as possible" (Yasutake 2012). Although it is very difficult to determine whether it is the other way around, what Noda did not realize is that even Japanese citizens generally agree upon the need of increasing consumption tax, when it is about to be actually carried out, then there is strong resistance. When the question is asked whether the consumption tax hike is necessary to maintain in the social security system, almost 60 percent responded "Yes" whereas 29 percent said "No". However, when the question specifically asks that it will be implemented by up to 10 percent by 2015, only 40 percent of respondents approved whereas 49 percent disapproved. "Noda did not realize that this would initiate a voters' revolt against the party just as the Japanese electorate did in the 1989 upper house election and the 1997 upper house election" (Park 2015, 12). Furthermore, "in the eyes of the electorate, the DPJ did not keep their promise and listened to the voice of finance before that of the ordinary people" (Park 2015).

#### **4. Ozawa Ichiro vs. Yoshihiko Noda**

When the raising the tax bill was passed, former party president Ozawa Ichirō, 38 members of the lower house and 12 members of the upper house, the House of Councilors, left the DPJ on July 2nd. The conflict between Noda and Ozawa was highlighted when the Noda's Cabinet approved the consumption tax bill on March 30th. Four subcabinet members of the Ozawa group resigned in protest (Shinoda 2013). Asahi Shimbun reported that Ozawa's "strategy is faltering as opposition to Noda is more virulent than expected" (22rd August 2011). In this section of the thesis, it argues that Ozawa Ichiro could penetrate Noda's underlying force behind the decision on sales tax increase as himself, once was a victim of danced to MOF's tune.

Aurelia George Mulgan in the "Ozawa Ichiro and Japanese Politics" claims that Ozawa's stance on the consumption tax was prominently inconsistent (2014, 41). He explains how Ozawa played a central role in initiating the consumption tax in 1989 under the Takeshita administration. Moreover, in the replacement of the consumption tax, Ozawa was eager to push a "national welfare tax" of 7 percent under the Hosokawa government. This was known as "a conspiracy between Ozawa Ichiro and the MOF" which was under

Ozawa's leadership without any consultation with coalition partners and faced fierce opposition within ruling party executives. Due the long recession, the proposal was withdrawn, but it eventually resulted in the collapse of the Hosokawa administration despite its high popularity at the time. Later Ozawa appeared on the TV program and said, "We have to do what we can do before we are faced with a super-ageing society" (Mulgan 2014, 14).

Despite the fact that after the mid-1990s and onwards, Ozawa himself left the idea of increasing the consumption tax and named himself as a radical politician for the 1995's NFP leadership election (Mulgan 2014, 41). In the reference to Ishihara Kan, "The Way Bureaucrats Should Be," Shinoda argues that the Ministry of Finance strategically approached Ozawa as the essential person to the tax reform since Ozawa believed "healthy government finances with a balanced budget" (Shinoda 2013). Furthermore, Curtis has stated that "during the Hosokawa Administration, the vice minister of the MOF openly aligned himself with Ozawa Ichiro to try to force an increase in the consumption tax.....in the process, he brought down a torrent of criticism on MOF for using its overt interference in the political process" (2002). Asahi Shimbun on 2011 August 10th, conducts interview with Morihiro Hosokawa, who became prime minister in 1993 as a non-LDP member. According to the



interview, Hosokawa blamed the Finance Ministry for trying to take advantage of his administration's high popularity in pushing for the new levy. He further recalls that, "The Kasumigaseki bureaucracy, joining forces with a panel of coalition party representatives (including Ozawa), was pushing for it" (Asahi Shimbun 10<sup>th</sup> August 2011).

Under the Kan administration, Ozawa denounced Kan "of following a typical MOF budgetary approach in pressing his ministers to cut their 2011 policy-related budget requests by a minimum of 10 per cent, rather than asserting political leadership over policymaking" (Mulgan 2014, 159). He blamed the budget-making role of the MOF and assured that, "Kasumigaseki decides everything and administration and budget distribution is done following their menu," and "we must build a system in Japan under which politicians can be responsible for making policies and deciding on budgets by themselves" (Mulgan 2014). Though Ozawa still acknowledges the importance of a tax increase, Ozawa stated his mantra learned from his previous experience, "don't entrust it to the bureaucracy; politicians should make decisions and implement these decisions" (Mulgan 2014, 159). In his book, "Kataru" he discusses about how he has been an advocate of tax increase but now he "knows all too well how talking about a tax increase has cost many politicians their political lives"

(Asahi Shimbun 29<sup>th</sup> July 2010). Therefore, Ozawa's "election-first principle" now caused a conflict when Noda's proposed the consumption tax increase.

This section contends that Ozawa's strong resistance toward Noda's decision to raise tax vividly show Ozawa's past experience of learning the intention of bureaucrats and its final consequences. Ozawa has made fun of Noda as he described him as the "officially endorsed candidate" of the Finance Ministry for the DPJ presidential election at the meetings with close associates on 14<sup>th</sup> of June (Asahi Shimbun 20<sup>th</sup> June). Ozawa told to associate, "even though he [Noda] is close to the Finance Ministry that means conversely that he knows what ministry officials are thinking" (Asahi Shimbun 20<sup>th</sup> June 2011). Ozawa again criticized Noda publicly as "Ozawa saw Noda becoming a puppet of the bureaucratic veto players at the MOF like Kan had done, and as violating the DPJ's campaign promise not to increase taxes" (Shinoda 2013, 223).

**Table 2:** Monthly Survey Results on the Support of Prime Minister Noda.

Date <sup>↵</sup>	Support <sup>↵</sup>	Do Not Support <sup>↵</sup>
September 2011 <sup>↵</sup>	53% <sup>↵</sup>	18% <sup>↵</sup>
October 2011 <sup>↵</sup>	48% <sup>↵</sup>	26% <sup>↵</sup>
November 2011 <sup>↵</sup>	40% <sup>↵</sup>	33% <sup>↵</sup>
December 2011 <sup>↵</sup>	31% <sup>↵</sup>	43% <sup>↵</sup>
January 2012 <sup>↵</sup>	29% <sup>↵</sup>	47% <sup>↵</sup>
February 2012 <sup>↵</sup>	27% <sup>↵</sup>	49% <sup>↵</sup>
March 2012 <sup>↵</sup>	27% <sup>↵</sup>	48% <sup>↵</sup>
April 2012 <sup>↵</sup>	25% <sup>↵</sup>	52% <sup>↵</sup>
May 2012 <sup>↵</sup>	26% <sup>↵</sup>	53% <sup>↵</sup>
June 2012 <sup>↵</sup>	27% <sup>↵</sup>	56% <sup>↵</sup>
July 2012 <sup>↵</sup>	25% <sup>↵</sup>	58% <sup>↵</sup>
August 2012 <sup>↵</sup>	22% <sup>↵</sup>	58% <sup>↵</sup>
September 2012 <sup>↵</sup>	25% <sup>↵</sup>	53% <sup>↵</sup>
November 2012 <sup>↵</sup>	18% <sup>↵</sup>	64% <sup>↵</sup>

(Source: Asahi Shimbun Regular Public Opinion Poll, date organized by author)

Table 2 indicates a monthly public opinion poll on the support rate of the prime minister. Noda's higher support rate of 53 percent in September 2011 dropped considerably to 18 percent by November 2012 and his 'do not support' rate increased from as low as 18 percent up to 58 percent. Noda was no exception to the public popularity when it comes to the issue of raising tax. As "talking about a tax increase has cost many politicians their political lives," Noda eventually lost the next election. Contradicting the rationale theory choice where a politician's main goal is to get elected and re-elected, Noda had staked

his political life on the success of the policy. This chapter has analyzed the underlying force that impacted Noda's decision.

Applying Kato's framework on Noda's case on the consumption tax increase and to summarize, MOF has targeted Noda as "the bureaucrats need to find political sponsors for their proposed policy" (Kato 1994, 11). In turn, this section argues that Noda was the perfect candidate for a bureaucrat to target for two reasons. First, Noda lacked experience managing big organization, had never worked as bureaucrat or white-collar worker (Zakaowski 2015). This background has made Noda to rely on bureaucratic advice and also made him more prone to bureaucrats' strategic persuasion. Second, as Noda himself has background of serving as Finance Minister, he has gained specialized knowledge prior exposure to MOF, "likely to accept if they consider the bureaucrats' proposal is sensible in terms of their specialized knowledge and acquired expertise" (Kato 1994). As Noda has "served as finance minister under the Kan administration, was convinced by MOF officials of the need for fiscal reconstruction" (Shinoda 2012, 821). The bureaucrats' expertise were used strategically on Noda to gain influence since "sharing policy information and knowledge with incumbent politicians is compatible with the promotion of bureaucratic influence in policy-making" (Kato 1994, 38).

The evidence was investigated through internal factors such as Noda's Administration, Cabinet lineup and Noda's personal background. Next, external situation was examined through media and how the Triple Disaster in 2011 was used. In turn, this chapter argued that the MOF's strategic approach, especially Eijiro Katsu personnel appointments where "Cabinet itself consists of lightweights, but the Finance Ministry bureaucrats that were sent over are all heavyweights", made Noda all more vulnerable MOF's persuasion and played crucial role impacting on Noda's decision-making process. This chapter ends with a comparison of Noda and Ozawa. Ozawa did not deny the fact that a consumption tax hike is an important matter, but he insisted that the prerequisites are imperative and that policy-making has to be done by politicians. Perhaps, with pricey lesson in the past, Ozawa, as a politician, now knows all too well about the intention behind bureaucrats.

## **Chapter 4: Revival of Bureaucracy**

Chapter three analyzed as the internal factor of how and why bureaucrats, focusing on the MOF, targeted Noda as a sponsor for achieving their long dream of a consumption tax hike. This chapter further observes the conditions that led Noda to become more vulnerable to the MOF even before he took office as the prime minister, explaining why Noda had no choice but to rely on bureaucrats in the first place. In turn, this chapter argues that bureaucrats' strategic recovery of their power initiated soon after Hatoyama's declaration of war on them and gradually, but surely carried out the preparation for the consumption tax increase.

In 1994, Kato argues that Japan had a predominant party system in "which the policy-making process was institutionalized between the bureaucracy and the party in power to an extent greater than in other systems experiencing frequent alterations in party government" (1994, 233). Kato stated that under this system, the policy-making process was based on the interaction of bureaucrats and the same incumbent party, but excluded the opposition parties. Moreover, it was possible for bureaucrats to expect the passage of bills approved by the LDP leadership, since the LDP had a relatively strong party

discipline and continuous control of the government. She further insists that in such a system, bureaucratic efforts to influence policy-making significantly alter policy outcomes and thus, bureaucrats focused their efforts on attaining the LDP's approval for a proposed policy. She finally contends that, "an unchanging incumbent party provides stable circumstances in which bureaucrats can pursue their desired policies" and "an unchanging incumbent party and the stability of the bureaucratic organization make the observations of interaction between the two groups easier" (Kato 1994, 14).

This chapter as the final one of this thesis aims to challenge the argument and assures that the consumption tax increase in 2012, the long-pursued goal of MOF, was possible because it was under DPJ. In other words, starting from the changes in the incumbent party, the confusion and instability of DPJ's setting, its crisis in crisis management enabled bureaucrats to finally achieve their long dreamed goal of consumption tax increase.

### **1. A New Inexperienced Incumbent Party**

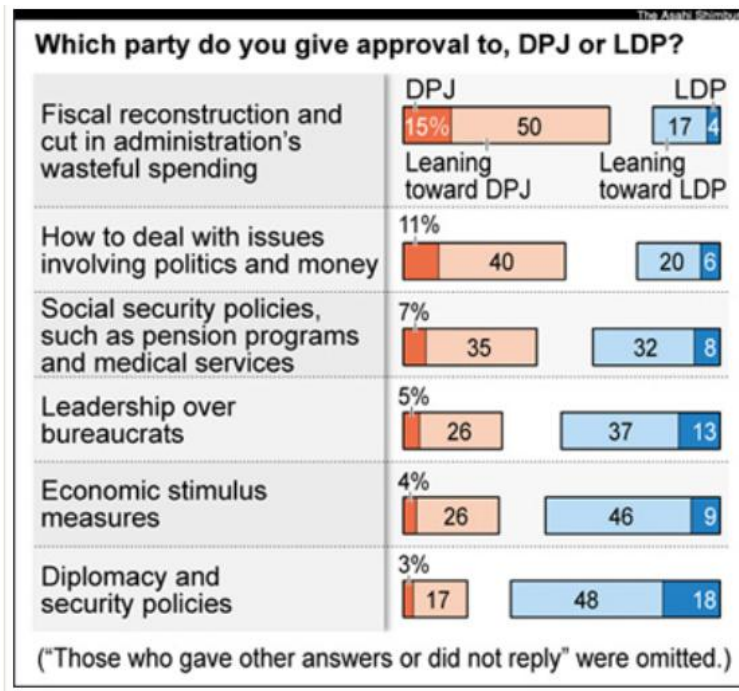
In 2009, Asahi Shimbun reported that an influential DPJ lawmaker claimed that "in egregious cases the party was prepared to hold a public

execution in Kasumigaseki" (7<sup>th</sup> October 2009). Despite their initial expectation, "public execution" of DPJ was carried just about three years since they came into power. The purpose of this section is not to provide an analysis on the fall of DPJ or on their inability, but rather to focus on how the MOF benefited from this. Thus, this section of thesis focuses on incidences and backgrounds that result in the revival of bureaucracy.

The Yomiuri Opinion poll conducted in November 21st, 2009 shows a 64 percent support rate and the Nikkei Shimbun Opinion poll conducted in July 3rd, 2009 indicates the support rate of Hatoyama government was over 65 percent. The Asahi Shimbun opinion poll conducted in June 2009 shows 60 percent of respondents had high expectations for future changes in government. Nevertheless, just two years after DPJ took power, over 80 percent of voters were dissatisfied with the politics (Asahi Shimbun 26<sup>th</sup> December 2011).



**Figure 4.** Party Approval Rate Compared DPJ and LDP

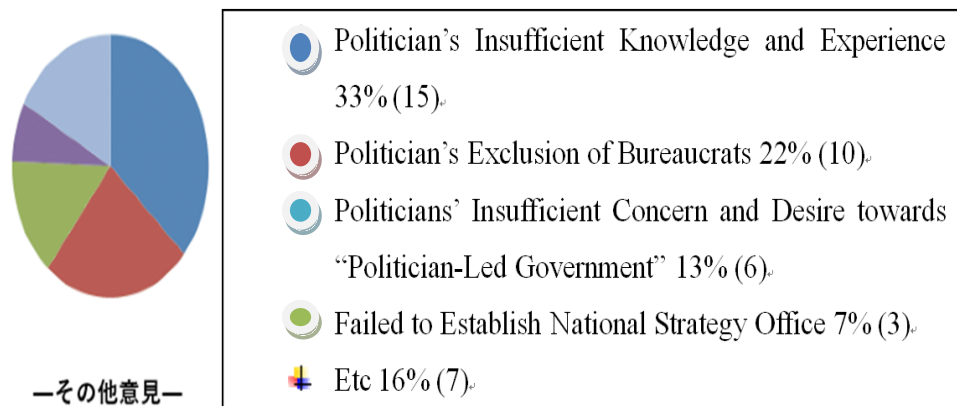


(Source : Asahi Shimbun 2012/12/26)

The survey was carried out from Asahi Shimbun in November to mid-December through the form of questionnaires mailed out to 3,000 eligible voters nationwide and 75 percent provided valid responses. Only 15 percent answered that they were rather satisfied with the political situation and only 1 percent answered that he/she was fully satisfied with the DPJ’s politics so far. Moreover, 73 percent responded “no” to the question when asked whether the politics have changed since the DPJ took over the government from the LDP in

September 2009. Figure 4 represents the percentage compared to the performance of DPJ with LDP. In contradiction to DPJ’s manifesto which aims that politicians take the initiative over bureaucrats, LDP rather marks significant higher percentage over “leadership over bureaucrats”(26<sup>th</sup> December 2012).

**Figure 5.** DPJ Members’ Self-assessments on Issue of Party’s Management over Bureaucrats



(Source RJIF: Rebuild Japan Initiative Foundation)

The Rebuild Japan Initiative Foundation conducted Surveys of DPJ members and their self-assessments on party governance, which was conducted on 45 members including the incumbent DPJ Lower House lawmakers. The question that was asked was explicitly about the party’s management over Bureaucrats. According to RJIF, zero respondents has responded to it as “it

went well” and only 8 DPJ member answered it as “it went well at some degree.” The majority of members (a total of 34 respondents) admitted and responded that “it did not go well” which equated to 76 percent. Two people responded with “it went bad” (Nakano 2013).

Furthermore, as shown in Figure 5, the question additionally asked for the reasons for the failures. 33 percent of DPJ members responded that it was due to politicians’ insufficient knowledge and experience. Surprisingly, 22 percent of members, in fact, blamed government for the exclusion of bureaucrats. They answered that this exclusion had rather brought on the failure of the management of bureaucracy under DPJ. 13 percent of respondents answered that it was due to politicians’ insufficient concern and desires toward a “politician-led government” and 7 percent of respondents answered that it was because they did not establish a proper National Strategy Bureau.

When DPJ declared “a game of outfoxing the foxes,” there was a growing concern that the battle with bureaucrats will eventually end up in a quagmire for DPJ (Asahi Shimbun 7<sup>th</sup> October 2009). As early as October 7th 2009, Asahi Shimbun reported that, “there is the danger that bureaucrats could take advantage of confusion among the three parties making up the coalition

government,” and “there is also the possibility of bureaucratic opportunists emerging,” such as to introduce a national welfare tax. Two years later, the Asahi news report on September 10th, 2011 claims that, “two years after taking office promising to cut senior bureaucrats down to size, the Democratic Party of Japan is realizing it may need the help of the mandarins after all.” Contrary to the confidence at the first election slogan, Hatoyama's administration went through troubles as soon as the information from the bureaucratic machine began to dry up following its reforms.

Kan Naoto, when he was under the Hatoyama Cabinet, displayed his anti-bureaucratic stance. On October 31st, 2009 at the DPJ meeting in Tokyo, Kan had stated that, “[Bureaucrats] do not use their brains. They just got good grades [in their school days], but they are very stupid” (Yomiuri 1<sup>st</sup> November 2009). As Hatoyama, Kan first rebuffed the memos that bureaucrats prepared for his statements on official events and refused the political tradition of relying on them (Shinoda 2012, 813). Shinoda, however, argues that, “his attitude totally changed when he served as finance minister” (2012, 813). “Kan suddenly proposed discussion of a consumption tax hike—which was not in the party manifesto but was strongly backed by the Finance Ministry—inviting

criticism he had yielded to the mandarins” (Asahi Shimbun 2<sup>nd</sup> September 2010).

Asahi shimbun September 20th 2011, claims Kan’s Cabinet was dismal and erratic and provided reasons why it had gone badly awry:

First, both the prime ministers--Kan and his predecessor Yukio Hatoyama--as well as the three top political officials of ministries and agencies--ministers, senior vice ministers and parliamentary secretaries-- were not experienced in running the government or executing policies. Secondly, a considerable number of DPJ politicians mistook arbitrary decision-making and execution for political control over policymaking. Thirdly, no effective system existed to work out the differing interests of ministries over policy decisions. (2011)

It is surprising that the results of figure 5 where showed that 22 percent of members, in fact, blamed the government for the exclusion of bureaucrats and that they believed that this exclusion had brought on the failure of the management of bureaucracy under DPJ. Koga, based on a comparison of Japanese government to a bus company, Koga explained that, “the politicians were the managers while the bureaucrats were the drivers” (Ito 2012). And “the DPJ’s biggest mistake was eliminating the bureaucrats. . . . It is natural for

politicians to lack the ability to do the job of the bureaucrats because what they need to do is decide on the big picture, the policies, and adjust interests”(Ito 2012).

Makihara Izuru further argues that their attempts to make policy by themselves while excluding the bureaucrats from the process were not possible from the start. When the DPJ decided to exclude bureaucrats in policy making, Izuru argues, “people filling these three positions are not policy experts, and it has proved impossible for them to come up with policy proposals without involving the bureaucrats” (2011). Furthermore, he claims these attempts eventually result in needless confusion in the ministries (Izuru 2011). Furthermore, Kenji E. Kushida and Philip Y Lipsey, in their book “Japan under the DPJ: The Politics of Transition and Governance” further argues that the mantra of empowering politicians against an elite bureaucracy ironically acted as a constraint on the DPJ’s ability to implement its reform agenda” (2015).

Based on the example of the relocation of the U.S. Marine Corps Air Station Futenma, Asahi reported that DPJ “exposed problems with the new policymaking structure and politicians' vulnerability without bureaucratic support” (Asahi Shimbun 10<sup>th</sup> September 2011). Another example during the

Noda government, Ichikawa Yasuo, formal ministers of defense, was replaced by Tanaka Naoki for being an amateur in security policy and for his ignorance on basic security issues. However, Tanaka further proved to be “unsuitable for this post as his predecessor” and he “tried to cover up his lack of specialist knowledge by relying heavily on the memos prepared by the bureaucrats” (Zakaowski 2015, 159). In fact, almost no one from Noda’s Cabinet had enough experience and knowledge to professionally understand the constitution on difficult legislative and this led the Cabinet Legislation Bureau director-general to resume answering Diet interpellations (Zakaowski 2015, 159). Furthermore, Kushida and Lipsy further argue that because the DPJ lacked “an effective mechanism to coordinate policy within the party, the outcome was widespread confusion and uncertainty about the governments’ objective and policy goals” (2015). For example, the Foreign Ministry officials often complained that they did not know what Japan’s official position was on major policies (Kushida and Lipsy 2015).

Asahi report on August 27th in 2011 reported that in January, Kan had confessed that “the ruling party’s drive to reduce bureaucratic control of decision making had caused significant problems” to a group of administrative vice ministers and other top-ranking bureaucrats. Kan stated, “(governance led

by politicians) has caused various problems in the management of nation's politics" and "there are issues we should reflect on: whether we went too far or whether we were inadequate" (Asahi Shimbun 27<sup>th</sup> August 2011). January 2011 Prime Minister Kan made a speech for asking cooperation among bureaucrats:

"There have been trials and errors in the relationship between politicians and bureaucrats. In each ministry, I would like you to discuss with the minister and senior vice minister and make an agreement on the kinds of cases that should be handled solely by politicians, and others that should require involvement of the vice minister and other high bureaucratic officials. I would hope to establish a good form of cooperative relations between them" (Shinoda 2013).

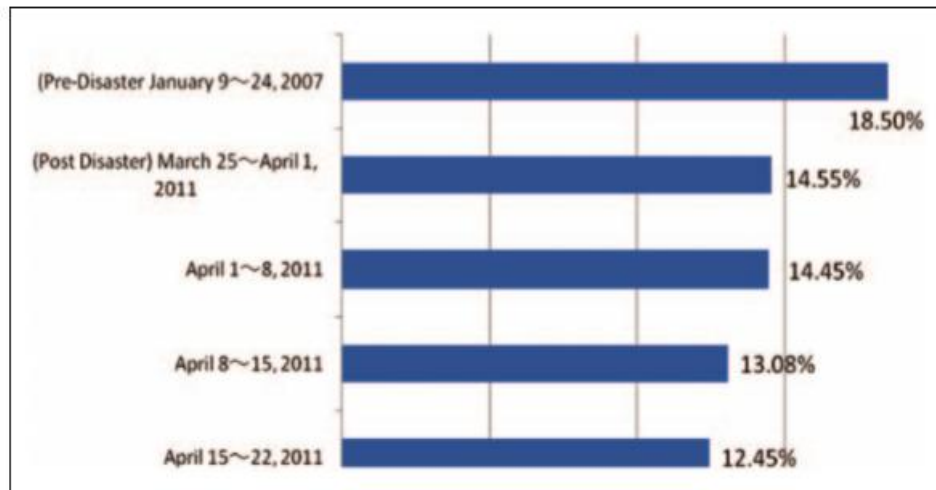
This section further enhanced the understanding of how Noda became more vulnerable to MOF persuasion even before taking the office as a prime minister who had no choice but to rely on their expertise. Hatoyama's failure and Kan's lack of capability to deal with emergency incidents ultimately formed the concept of a politician-led government on major newspapers, "of being only 'immature,' but also 'dangerous'" (Zakaowski 2015, 205). The failure of both Hatoyama and Kan, in fact, made Prime Minister Noda to "end the risky gambit



and return to many LDP like practices” (Zakaowski 2015, 205).

## 2. Tohoku Earthquake and Tsunami: crisis and crisis management

**Figure 6.** Trust in Central Government Before and After the Disaster



(Source: The survey research on “Public Trust in Government” Akira Nakamura)

The Great East Japan Earthquake is fundamentally different from the Great Kato Earthquake back in the 1920s in terms of reconstruction efforts and transparency on the decision-making process. Hiroko Oota, the former Economic and Fiscal Policy Minister, criticized DPJ’s effort and state that, “although they [DPJ] came to power by promising to improve the transparency

of policy decision process, they damaged it. ... To ensure it, it is necessary that people can later examine the policy making process. ... However, they have not kept the minutes of the meeting at all” (2011). Figure 6 represents the public trust in government before and after the disaster. It shows a steady decline from pre-disaster of January of 18.5 percent to a post-disaster rating of 14.5 percent in March and a low of 12.4 percent April 15th. In addition, the Asahi public poll indicated that 71 percent of respondents disapproved of the efforts of the DPJ-led government to reconstruct disaster areas and the crisis at the Fukushima No. 1 nuclear power plant. In contrast, only 25 percent approved of the government's efforts (Asahi Shimbun 22<sup>nd</sup> October 2012). Moreover, 28 percent of the respondents said they were totally dissatisfied with the political situation since the March 11th Great East Japan Earthquake and 52 percent said they were rather dissatisfied with it (Asahi Shimbun 26<sup>th</sup> December 2011).

Bureaucrats took advantage of the DPJ's lack of crisis-management skills on the triple disasters and the aftermath which left the government no choice but to rely on them. T.J Pemple stated that in the “wake of the triple disaster of 3/11 DPJ demonstrated minimal effective crisis management” (T.J Pemple 2012). Furthermore, Shinoda argues that “the lack of experience of inter-agency coordination during the 18 months under the DPJ government

indeed did cause a crisis in the crisis-management system” (Shinoda 2012). Izuru further argues, “that said, since the March earthquake the bureaucrats have once again begun to take the initiative in proposing recovery measures and reconstruction policies” (Izuru 2011).

For policy coordination on disaster relief, Yoshito Sengoku, Chief Cabinet Secretary, eventually decided to assemble liaison meetings among key ministries and agencies, attended by their top bureaucrats. According to Shinoda, “this was in fact a revival of the administrative vice-ministerial meeting, although it was limited to the goal of victim support” (Shinoda 2013). This regular liaison meeting gave opportunities for top bureaucrats to coordinate action and exchange information. Though the meeting was aimed for disaster relief, inter-agency coordination was needed at various working levels. “Under the traditional bottom-up policy making process in the LDP government, bureaucratic officers at the deputy director level began inter-agency negotiations. These continued at the director level as well as the bureau chief level” (Shinoda 2013).

### **3. MOF's Strategic Approach**

This section argues that in contradiction to their initial manifesto, the inexperienced new ruling party rather excessively increased bureaucratic influence. Furthermore, Cheol Hee Park, a professor at Seoul National University and a Japanese specialist, argues that “their promise that politicians would take the lead in policy formation fell short because the DPJ did not have independent think tanks or policy innovators of their own, and so ended up listening to experience bureaucrats” (Park 2015, 25). In fact, “the Finance Ministry has gained more clout under successive DPJ administrations, winning over prime ministers Yukio Hatoyama, Naoto Kan and now Yoshihiko Noda” (Asahi Shimbun 5<sup>th</sup> April 2012). Masuzoe Yoichi, the Head of the New Renaissance Party, argues that “in the end, the DPJ proved no match for the counterattack launched by the bureaucracy, which could draw on the power of its own specialized knowledge, and gradually the bureaucracy gained hegemony over the policymaking process” (Masuzoe 2012).

On January 15, 2011, Asahi Shimbun introduces the Kan's new Cabinet lineup and claims that Kan will rely more on bureaucrats to deal with a divided Diet and get legislation enacted. Kent Calder, a expert at Japanese

politics and director of the Reischauer Center for East Asian Studies at the School of Advanced International Studies of Johns Hopkins University, said, “the appointment of Kaoru Yosano as state minister in charge of economic and fiscal policy was a sign that Kan was moving back toward allowing greater input from central government bureaucrats” (Asahi Shimbun 15<sup>th</sup> January 2011). He further argues that this indicates a “realization that Kan needs more experienced people” (10<sup>th</sup> September 2011). Furthermore, Calder insists that the appointment of Hirohisa Fuiji, a veteran lawmaker, as the deputy chief Cabinet secretary indicates another change in Kan administration as Fuiji, “has served as finance minister and knows the inner workings of the central government bureaucracy, having worked in the Finance Ministry himself” (Asahi Shimbun 15<sup>th</sup> January 2011). He concludes that this is clearly different from Hatoyama administration which shows that Kan has learned from Hatoyama's mistakes.

On April 5, 2012 Asahi Shimbun, reported that despite the DPJ's initial pledges to decrease power of bureaucrats and put politicians in charge, “it never challenged the Finance Ministry, the bastion of the nation's bureaucratic hierarchy” (Asahi Shimbun 5<sup>th</sup> April 2012). Keisuke Tsumura, a parliamentary secretary charge of national policy, explains how the DPJ's strategy collapsed. When Kan was still a national policy minister back in late September 2009, he

faced challenges due to the government's inability to decide on a basic budget policy with the issue revenue shortages for the DPJ's campaign policies. That is when "Katsu, chief of the Budget Bureau, appeared" (Asahi Shimbun 5<sup>th</sup> April 2012).

Kan sought advice for the timing of drawing up a basic budget if the budget was to be compiled by the end of the year. Katsu said, "The DPJ has a grand manifesto," and "if you issue a sheet of paper and tell us to compile the budget based on the manifesto, we will follow the instruction." The meeting effectively placed Finance Minister Hirohisa Fujii, not Kan "in charge of compiling the budget under the first DPJ administration" (Asahi Shimbun 5<sup>th</sup> April 2012). Fujii, the 79 year old former Finance Ministry bureaucrat, said, "I don't think politicians can make correct judgments on details of the budget." He further claimed that, "the Finance Ministry has a tradition encompassing more than a century. What is expected of politicians is to make decisions."

This section reveals that this was a critical moment for when DPJ fell under the trap. Despite Kan's initial anti-bureaucratic stance and DPJ's election manifesto, the new ruling party's lack of knowledge and management skills gave way for a chance for the revival of bureaucrats. Furthermore, "Fujii was

instrumental in installing Noda as senior vice finance minister under him” (Asahi Shimbun 5<sup>th</sup> April 2012). The book Noda wrote before the DPJ came as a ruling party, Noda did mention the necessity of cutting wasteful spending and to stop bureaucrats from landing cushy post-retirement jobs, “but not a line touched on a consumption tax hike” (Asahi Shimbun 5<sup>th</sup> April 2012). Nevertheless, “Noda suddenly turned into a tax hike advocate after he was appointed senior vice finance minister.”

Ever since, the DPJ administration constantly set out the ground for the consumption tax increase under Kan. Kan, suddenly called for a consumption tax hike before the 2010 House election where Noda appeared “a leading voice of the Finance Ministry's arguments in the political world after he was promoted to finance minister under Kan” (Asahi Shimbun 5<sup>th</sup> April 2012). Both of them have the experience of serving as finance ministers and then took power as prime ministers. Before the DPJ presidential election in 2011, through the intermediation of bureaucrats of MOF, Noda met former finance ministers of LDP. It came as surprise to the political world when Noda appointed Jun Azumi as his first Cabinet portfolio and as the finance minister. But what is more important is that, as mentioned in chapter 3, the “Finance Ministry bureaucrats approached Azumi even before the change in government because

he stood out for his handling of Diet affairs.” According to Asahi Shinbum, “the ministry has regularly held policy study meetings for Azumi, assigning Shigeaki Okamoto, a budget examiner and his acquaintance, as a lecturer,” and “Okamoto now supports Azumi as director-general of the Finance Ministry’s Secretarial Division” (Asahi Shimbun 5<sup>th</sup> April 2012).

Even before the DPJ took power, on July 2009, Yasutake Tango, the MOF’s top bureaucrats have said, “his ministry will prepare to raise the consumption tax as stipulated by law, but it is also ready to change course if the Democratic Party of Japan, which is reportedly against a consumption tax hike over the next four years, takes power” (Fukada 2009). At the interview with The Japan Times, Tango stated that, “First, it is basic that we will make various preparations in accordance with them”. Tango further claimed that even if the government changes and DPJ decides not to raise consumption tax, “his ministry will serve the new Cabinet members,” however, “we believe it is our role to appropriately assist the prime minister and the finance minister” (Fukada 2009). He further urged the current economic situation and explained the MOF’s future fiscal plans, “we would like to make efforts so that we will be able to compile the budget with such a basic policy” (Fukada 2009).



Chapter three has discussed how the MOF, under the instruction of Eijiro Katsu, strategically targeted Noda and persuaded him to be its sponsor for consumption tax hike. This chapter argues that the MOF's attempt for their revival was, in fact, initiated soon after the Hatoyama's declaration of war on them. This thesis further assures that this was not too challenging for bureaucrats do so since the new ruling party lack knowledge and management skills. Kan's initial anti-bureaucratic stance soon turned into reliance on MOF due to government's inability and that's when Katsu appeared. Going back to chapter three, Katsu plays fundamental role in Noda's decision making process by planting his personnel appointments in Noda's Cabinet. The critical moment is when Katsu plant Fujii to take charge of compiling the budget under DPJ as Fujii acted as an instrumental in installing Noda as senior vice finance minister under him. By the time Noda took the helm, "it appeared the DPJ was under the control of the bureaucrats, with the biggest example being his key goal of hiking the consumption tax — a long-sought goal of the Finance Ministry" (Ito 2012).

#### **4. Morihiro Hosokawa case:**

The LDP has been the pre-dominant ruling party since 1955---except for a brief 11 month period between 1993 and 1995 and from 2009 to 2012. Kato contends that “an unchanging incumbent party provides stable circumstances in which bureaucrats can pursue their desired policies” (Kato 1994, 14) and increase their influence. However, those brief periods, where there were changes in the incumbent party, the bureaucrats could expand their influence on the tax increase. Morihiro Hosokawa became the first non-LDP prime minister in September 1993. At the interview with Asahi Shinbum on August 2011 with him, Hosokawa blamed the Finance Ministry for trying to “take advantage of his administration’s high popularity in pushing for the new levy” (10<sup>th</sup> August 2011). He assures that, “The Kasumigaseki bureaucracy, joining forces with panel of coalition party representatives (including Ozawa), was pushing for it” (Asahi Shimbun 10<sup>th</sup> August 2011).

Mulgan contends that Ozawa was passionate in pushing a “national welfare tax” of 7 percent under Hosokawa government and this known as “a conspiracy between Ozawa Ichiro and the MOF” (Mulgan 2014, 41). In the reference to Ishihara Kan, Shinoda further assures that the Ministry of Finance

strategically approached Ozawa as the necessary person to the tax reform since Ozawa shares belief that “healthy government finances with a balanced budget” (Shinoda, 2013). The pressured eventually led Hosokawa to accept the need for the consumption tax increase and announced the plan of ‘kokumin fukushizei (national welfare tax). Masayoshi Takemura, Chief Cabinet Secretary and leader of New Party Harbinger at the time, strongly opposed the reform. Ozawa, in turn, requested Hosokawa to removed Takemura (Mulgan 2014). However, the internal party dispute ended when the proposal was withdrawn which eventually resulted in the collapse of the Hosokawa administration, despite its high popularity at the time.

In the case of Hasokawa, a Prime Minister of New Party back in 1993, and case of Noda, a Prime Minister of Democratic Party of Japan in 2012, both as non-LDP party, suggest that, in fact, bureaucrats had a greater chance to expand their influence on policy making when there are changes in the incumbent party. The success of raising consumption tax in 2012 is the fundamental piece of evidence for this.

## **5. Bureaucrats and LDP under DPJ**

Shigeaki Koga, a former bureaucrat, said, “DPJ thought that the LDP and the bureaucrats were the same because of all of those years (the DPJ was part of) the opposition. . . . They viewed the LDP as well as the bureaucrats as their enemies, and that is why when the DPJ took power, they (sidestepped) the bureaucrats” (Ito 2012). This section of thesis analyzes the relationship of MOF bureaucrats and LDP under DPJ rule. In turn, this study argues that in the end, LDP and bureaucrats did benefit from the same goal.

Furthermore, Kato argued that under LDP system, the policy-making process were based on the interaction of bureaucrats and the same incumbent party and excluded opposition parties (Kato 1994, 233). Nevertheless, the case of the consumption tax hike of 2012 revealed a very different scenario. Having the bureaucrats’ support behind him, Noda’s main weapon to pass the bill was based on his cooperation with opponent opposition parties. Cheol Hee Park argued that rather than maintaining his own party solidarity, Noda placed more importance on making a grand coalition with the LDP and New Komei to raise the consumption tax. Which made the “Japanese electorate wonder whether Noda was on the LDP side or the DPJ side” (Park 2015).

This section argues that Noda's strong desire to pass the consumption increase bill was a win-win game for both bureaucrats and the LDP whereas it was eventually a losing game for DPJ. From the beginning, it was the LDP that declared the plans for a VAT hike in its electoral manifesto in 2009 (Zakaowski 2015). Furthermore, "most of the LDP politicians were aware of the necessity to increase the consumption tax and preferred to have this unpopular reform implemented before the expected return to power" (Yomirui Shinbun Sijibu 2012). On February 25th 2012, Noda secretly met with the LDP leader, Tanigaki Sadakzu, trying to persuade Tanigaki for the cooperation. In turn, Tanigaki demanded the dissolution of the House of Representative as a pre-requisite for the tax system (Zakaowski 2015, 180). Furthermore, "The LDP leaders repeatedly told DPJ executives that they would cooperate on the consumption tax increase bill if the DPJ kicked out Ozawa and his supporters" (Park 2015, 11).

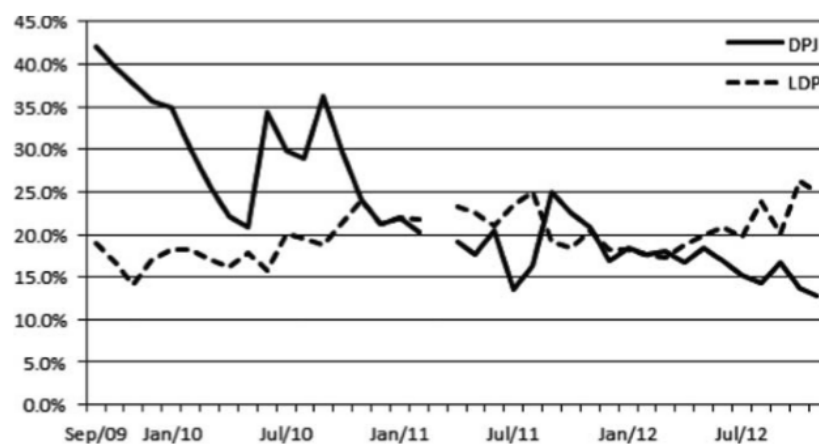
Asahi on April 9th 2012 published a news article titled, "Finance Ministry maneuvers behind the scenes of tax hike bill." It reported that, Ministry officials were worried that Diet deliberations delayed, a senior Finance Ministry official request the LDP President Sadakazu Tanigaki to agree to enter

into discussion on the bill in the Lower House by April 26th (9<sup>th</sup> April 2012). MOF bureaucrats actually went back and forth among DPJ and LDP leaders to reach necessary agreement (Ito 2013). Sumio Mabuchi, a DPJ lawmaker and former land minister, claimed that MOF are lobbying LDP lawmakers about the tax bill. He said, from an early stage, “I heard from an LDP lawmaker that Finance Ministry officials are making the rounds of LDP lawmakers to cancel out DPJ-proposed revisions,” and claims that, “a tide of bureaucratic control is emerging” (9<sup>th</sup> April 2012). With all the efforts the bureaucrats and Noda has put in, the negotiators from the three parties achieved an agreement on 15 June 2012 (Zakaowski 2015, 183).

As result, LDP won the next election without having to worry about going through troubles implementing consumption tax increase. Moreover, the result of the consumption tax increase in 2012 was clearly a win-win game for bureaucrats as their long dream had come true. Takahashi maintains his argument that Japan’s Ministry of Finance is back as he says, “the MOF’s diminished role during the stagnation of the two decades that followed is coming to an end as bureaucrats take advantage of the inexperience of DPJ lawmakers to expand influence on policy making” (Reynolds and Hirokawa 2012a). According to Izuru, who argues that the biggest result of the DPJ’s

“politician-led government” so far has been the virtual end of the practice of “bureaucrat bashing” (2011). Furthermore, The DPJ’s failure unquestionably exposed the fact that the bureaucracy has surprisingly remarkable role in Japanese politics, reminding reformers of the inherent difficulty of reducing its power (Izuru 2011).

**Figure 7.** DPJ and LDP’s Support Rate in NHK Polls



(Source: Nippon Hoso Kyokai)

Figure 7 represents the DPJ and LDP’s support rate conducted by Nippon Hoso Kyokai. Despite the high hopes for the DPJ administration in the beginning, the support rate of DPJ from over 40 percent of in September 2009 fell under 15 percent by July 2012. The support rate of the LDP rose from just

below 20 percent up to just over 25 percents but exceeded the DPJ by the time of May 2nd. In the December 2012 general election, DPJ gained only 56 seats while LDP returns to power by gaining 294 seats. Park argues that Noda's strong desire for a tax hike was the cause of division within the party - "Noda's strong drive for a consumption tax increase eventually divided the DPJ" (Park 2015). He further contends that "if we review all the political blunders and mistakes of the DPJ, especially by the Noda cabinet, the DPJ should be blamed for its own failure," and "it is the DPJ government itself that helped the LDP to return to power" (Park 2015). Mishima also argues that "the consumption tax problem messed up the Noda's Cabinet's policy making most severely" (Mishima 2015, 442).

## **Conclusion of Chapter**

When Hatoyama declared war on bureaucrats in 2009, "bureaucrats, for their part, [were] preparing various strategies of their own to meet the challenge from the new administration" (Asahi Shimbun 7<sup>th</sup> October 2009). In the end, the MOF could achieve their long dream of raising the consumption tax whereas DPJ was clearly defeated in the following election. This section further enhanced an understanding of how Noda became more vulnerable to the MOF



persuasion even before taking the office as prime minister and had no choice but to rely on their expertise. Hatoyama's failure and Kan's lack of capability to deal with emergency incidents ultimately accused the concept of a politician-led government on major newspaper as not being only "immature" but also "dangerous".

As noted back in the previous chapter, these excessive negative results, in fact, made prime minister Noda "end the risky gambit and return to many LDP like practices" (Zakaowski 2015). Based on the analysis, this chapter argued that the bureaucrats' strategic recovery of their power initiated as soon as Hatoyama declared war on them and gradually but surely carried out the preparation for the consumption tax increase. This chapter argued that despite the promise that the DPJ made to curtail bureaucracy and devolve power to citizens when they took office in 2009, rather than curtailing bureaucratic influence, it has increased under DPJ's rule, in fact, through Noda.

The Asahi Shimbun on October 7th, 2009 introduced the strategy of Defense Ministry on DPJ, "the Defense Ministry's strategy is based on flexible response and is being dubbed the '1-8-1' theory." A high-ranking Defense Ministry official expands the meaning, explaining that the first 1 would be

carried out by changing the style of doing things, while the 8 involves maintaining the status quo,” and “the final 1 would allow the DPJ government to carry out what LDP government could not” (October 2009). Asahi Shimbun further analyzes what it means based on the example of Marine Corps Air Station Futenma, “the first 1 relates to the DPJ argument to move Marine Corps Air Station Futenma outside of Okinawa Prefecture. Then, the ministry would conduct a review of the proposal, but in the end to convince the government to give up on that possibility.”

In fact, this study showed how “1-8-1 theory” can be also applied to the Ministry of Finance strategy of flexible response. First 1 –as of changing the style of doing things-- relates to the DPJ argument on eliminating administrative waste and corruption by introducing a politician-led government. The MOF would conduct a review of the proposal, but as of the final 1, in the end it would convince the government to give up on that possibility. Furthermore, the final 1 would allow the DPJ government to carry out what LDP government could not, which was the raising of the consumption tax.

This chapter observes the various elements of DPJ that bolster the revival of bureaucratic strategic influence on policy-making that was even

stronger than what is was under LDP. In turn, a rebuttal to Kato's argument that the strong bureaucratic power is maintained under an unchanging incumbent party system, this chapter argued that, based on the evidence of DPJ's case, the bureaucracy has a higher chance to expand their influence when the incumbent politicians lack policy expertise and are inexperienced rather than with a disciplined party with a majority power for a long period. Furthermore, DPJ's case clearly shows evidence against Kato's assertion that "bureaucrats may not be able to implement as major a policy change as occurred under the LDP rule, especially if the policy is unpopular" (Kato 1994, 233).

## **V. Conclusion**

### **1. Limitation of Study**

Since the objective of the study was to find another possible alternative to explain one single case of Noda's 2012 consumption tax increase, it heavily relied on news articles and statements from insiders. This study further relied on previous consumption tax hike cases in Japan referencing theoretical framework generated from Junko Kato in 1994. However, this consumption tax increase is fundamentally different from previous studies as it was under new ruling party. Thus the study made a comparison with the New Party under the Hosokawa case. It came to conclusion that bureaucrats rather increased their influence under inexperienced new ruling parties. However, this generalization has a drawback since it has only two cases to examine due to the LDP's long success in maintain its power. Thus, this study further investigated DPJ's various elements that bureaucrats could tackle in order to achieve their goal focusing consumption tax. This information was drawn from news articles, previous studies, interviews from associates. However, since this study was not based on the field research, there still are limitations in investigating in-depth policy-making process of consumption tax.

## **2. Future Study Suggestion**

As the study left further implications in the last part of chapter four, the relationship between the LDP and bureaucrats----not under LDP rule but under the DPJ----is still under investigation. In other words, the relationship between the bureaucrats and the opposition party (in 2012) leaves further implications. It is the fact that the LDP had a long history of keeping its position as an unchanging incumbent party. Thus questions raised are as follows: Who benefits from the DPJ's success in pushing a consumption tax hike? Who benefits from the fall of DPJ? Even if they did have some degree of cooperation to push Noda and the DPJ to be a cannon fodder, what implication does that have on Japanese democracy?

## **2. Result/Discussion**

Noda's decision to raise the consumption tax breached the DPJ's own manifesto and eventually caused the Ozawa led-forty-nine members of his faction to leave the DPJ in protest. As a result, the DPJ lost its hard-won election and power. This study started from asking the why; that is, why would

Noda raise the consumption tax and risk his own political life? What was the underlying force that drove Noda to raise the tax and to act out against the usual political interests? In order to investigate these questions, this study drew upon massive amounts of news articles, interviews and statements from associates, and public opinion polls. In order to obtain insight on the influence of the bureaucrats on Noda's case, chapter two has reviewed classic studies on the capabilities of bureaucrats in Japan, how it shifted over time and under different political parties. Regardless of mainstream traditional debates on the "dominant bureaucracy school" versus "dominant politician school", this study focuses on the interaction of politicians and the bureaucracy on the policy-making process. In fact this interaction between the bureaucrats and the politicians has been the main factor that results in the weaker political authority over bureaucracy and source of constraint of administrative reform in Japan (Furukawa) as it was the case for DPJ as well.

Chapter three is a primary important chapter since it investigated Noda's personal background, the MOF's strategic approach, the MOF using the media under Noda, Noda's Cabinet members, and the personnel appointments from the MOF. The result of the investigation revealed that the underlying force that drove Noda to raise the consumption tax was the MOF under Eijiro Katsu

in the combination with the external situation such as the Triple Disaster which was used to convince the public for the necessity of the tax increase. Noda's background has made him more prone to bureaucrats' strategic persuasion and Katsu's personnel appointments planted on Noda's Cabinet were the fundamentally important factors on the 2012 consumption tax increase and to win over battle within the party itself on the issue. In short, the MOF's power to convince both in (Cabinet and party itself) and out (public by using media, cooperation with opposition party) has been both fundamental factors that pushed the tax hike bill without strong resistance. This chapter argues beyond Kato's theoretical framework that bureaucrats not only strategically target politicians but also MOF bureaucrats select and educate young politicians and bureaucrats and plant them into the cabinet. This 'plantation' played crucial role since it was also used to suppress the anti-tax group.

However, this study came to comprehend that this strategic approach was in fact initiated even before Noda came as prime minister. Thus, to find the root, this study further explored Kan's cabinet and how Kan's anti-bureaucratic stance shifted as exposure to bureaucratic advertises and persuasion increases. Then, this study further realized that the strategic approach to Kan started even before Kan took power as prime minister. In fact, it started right after when

Hatoyama declared anti-bureaucratic practices. Later on in September 2009, Kan, as a national policy minister, met Katsu due to the government's inability to decide on the basic budget policy and issues of revenue shortage. This is crucial point since this meeting placed Fujii, who was instrumental in installing Noda as Vice Minister of Finance, and as later on Katsu played major role on pushing Noda's consumption tax increase. This study discovered that MOF was already in preparation to raise the consumption tax regardless of DPJ's election manifesto and even before DPJ came as the incumbent party, "first, it is basic that we will make various preparations in accordance with them" (Yasutake 2012).

Furthermore, the study argued that the DPJ's inexperience and instability of party itself made it an easier game for the MOF to increase its impact on the policy-making process and revive their power. This study than doubted whether the DPJ had the ability to challenge the bureaucrats in the first place. It comes to conclusion that, despite its election manifesto, bureaucrats rather expanded their influence because the DPJ never had capacity to win over the bureaucrats and bureaucrats were aware of this from the beginning. Bureaucrats did not protest nor oppose the DPJ's initial plans but rather showed a flexible response and strategically targeted politicians and strategically



installed their allies into the Cabinet. One critical point made in the study is that DPJ and Noda, in fact, served as a foothold for MOF's long dream of raising the consumption tax.

During the era of LDP's rule, there was a tendency to pin the blame on the bureaucracy whenever results went bad. However, the biggest result of the DPJ's "politician-led government" so far has been the virtual end of the practice of "bureaucrat bashing" (Izuru 2011). This time, the blame of negative results and discontent towards the consumption tax hike directed toward the DPJ's incapacity.

In the rebuttal to Kato's argument, based on the fact that Finance Ministry mandarins' long dream has come true under DPJ and Noda, this study contended that bureaucrats' influence on the policymaking process does not rely on their expectation of politicians' behavior and, in fact, bureaucrats experts are more demanded in a "setting" where there is confusion and instability in the system. In other word, as it was shown in DPJ's case, this study argued that that the bureaucracy has a higher chance to expand their influence when the incumbent politicians lack policy expertise and are

inexperienced rather than under disciplined party with a majority power for a long period.

Examining the case based on the concrete economic rationale---as seen in the many studies--- the argument would turn out very differently. From an economic perspective, some believe that Noda's consumption tax increase was an unavoidable decision to make and Noda's dedication can be seen as sacrificial for the sake of his nation. Moreover, if the purpose of this thesis was to examine the rise and fall of DPJ, many more variables could have been given such as lack of internal unity, ineffective leadership, diplomatic relations, poor election strategies and/or twisted diet. However, the objective of this thesis is not to argue the power of the bureaucracy and explain the rise and fall of DPJ. Instead, this study proposed that the indirect impact of the bureaucrats that had been<sup>1</sup> thought of as the major reason of the DPJ's break-up, the consumption tax. Furthermore, this study purely investigated the bureaucratic influence on Noda's decision and its policy-making processes. The rise and fall of the DPJ once again harks back the unusual power of Japanese bureaucracy.

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## 요약(국문초록)

2012년 노다 요시히코 총리는 일본에서 15년 만에 2015년까지 소비세 10%의 인상에 대한 의회의 승낙을 얻어냈다. 논란에도 불구하고, 노다 총리는 정책의 성공에 자기 자신의 정치 인생을 걸겠다고 선언했다. 노다 총리의 그러한 결정은 정당 전체의 메니페스토를 위반하는 것 이이었고, 결국 반대하던 오자와를 포함한 49명의 민주당위원의 탈당이라는 치명적인 결말을 초래 하였다. 그 결과 민주당은 2012년 12월 선거에서 비극적인 참패를 당하고 3년 3개월 이라는 짧은 집권을 마무리 지었다. 그렇다면 당의 이러한 결과에도 불구하고, 노다 총리는 왜 자신의 정치적 생명까지 내던지며 소비세를 인상하였는가? 이러한 정치적 이익에 어긋나는 노다의 결정 뒤에는 어떠한 근본적인 힘이 있었는가?

이 연구는 노다의 소비세 인상의 결정을 뒤에서 도모한 관료들의 영향력, 합리성, 설득력 그리고 전략적 접근이 미친 영향을 조사한다. 연구 시작에 앞서, 제 2장에서는 오랫동안 일본 정치에서 논점이 되어온 정치인과 관료의 관계구조를 알기 위해 일본의 ‘관료 주도’는 무엇이었는지, 자민당의 ‘행정조직 주도’는 어떠한 배경에서 생겨났는지, 또 민주당의 ‘정치 주도’ 또는 ‘수상 주도’가 무엇이었는지에 관해 탐구한다. 제 3장에서는, 본격적으로 2012년 소비세 인상에 있어 재무상의 내부적인 위력을 분석하기 위해, 노다 내각의 정책 결정프로세스와 내각 구성인원의 라인업을 검토한다. 또 외부적인 요인으로

서 재무상이 2011년도에 일본을 강타한 동일본 대지진, 쓰나미, 후쿠시마 원전 사고 일명 ‘삼중의 재해’를 어떤 방식으로 이용해 미디어를 통해 소비세 인상에 대해 대중을 설득하였는지 분석한다.

더 나아가 마지막 장에서는 어떻게 관료들이 민주당의 선거 선언문에도 불구하고 노다와 민주당을 통해 정책 결정프로세스에서 더 많은 영향력을 얻을 수 있었는지에 관해 조사한다. 따라서, 제 4장에서는 관료들의 전략적 접근과 관료의 정책결정 프로세스 책략의 부활을 가능케 해주었던 민주당의 다양한 요소를 분석한다. 연구 결과, 이 논문은 재무상의 오랜 꿈이었던 2012년도 소비세 인상은 여당이 민주당이었기 때문에 가능했다고 주장한다. 즉, 집권당의 변경, 민주당의 정치적 전문성과 지식의 결여, 당내의 혼란과 민주당의 시스템 불안정, 당의 재난 위기 대처의 실패가 노다 정권아래 재무상의 영향력을 부활시켜 주었고, 소비세 인상 책략의 밑바탕이 되어 소비세 인상이라는 혼치 않은 결과가 가능했다고 주장한다.

키워드: 일본정치, 민주당, 노다 총리, 소비세, 관료제, 재무성

학번: 2013-23737